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AN OVERLOOKED ASSET: THE DEFENSE CIVILIAN WORKFORCE

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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AN OVERLOOKED ASSET: THE DEFENSE CIVILIAN WORKFORCE

MONDAY, MAY 12, 2003

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 12:35 p.m., in Philip E. Carney Auditorium, U.S. Air Force Museum, Wright-Patterson Air Force Base, Dayton, Ohio, Hon. George V. Voinovich, Chairman of the Subcommittee, presiding.

Present: Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. The Subcommittee on the Oversight of Government Management and the Federal Workforce will come to order. Good afternoon, and thank you all for coming.

First, I would like to thank General Charles Metcalf and the Air Force Museum for hosting this field hearing. I appreciate your hard work and cooperation. As many of you know, this hearing was originally scheduled to take place in February, but inclement weather in Washington and Ohio caused its postponement. I am pleased that we were able to reschedule the event for this spring.

It's nice to be back in this facility. I visited many times when I was Governor of Ohio, and I understand that there is going to be another wing dedicated. Hopefully, we'll get a chance to come down for that also.

Today's hearing is entitled "An Overlooked Asset: The Defense Civilian Workforce." This is the thirteenth hearing that this Subcommittee has held on the formidable human capital challenges confronting the Federal Government. I suspect that 13 hearings is unprecedented, and that this Subcommittee has had more hearings on the Federal workforce since 1999 than it has at any time since 1978. Nineteen hundred seventy eight was when Congress really looked at the last comprehensive review of our personnel system in the Federal Government. And it's a subject that I made up my mind a long time ago that I was going to devote my attention to.

One of the reasons I came to the Senate was to change the culture of the Federal workforce, along with balancing budgets and reducing the deficit, and I have tried to get a hold of this like a bull dog and don't intend to let it go. And I know David Walker, who has been my colleague in this effort, knows that we've been at it for a while, haven't we, David?

Mr. WALKER. We have, Senator.

Senator VOINOVICH. Today we are examining a significant element of the Federal Government's 1.8 million employee workforce: The civilian staff of the Department of Defense, the almost 700,000 workers who stand behind our men and women in uniform each and every day. In other words, what we're talking about is having the right people with the right skills and knowledge in the right place at the right time.

I mean this literally—in terms of what's happened right here at Wright-Patterson—in that these employees conduct vital research and development, administer bases, build and repair military equipment in arsenals and depots, operate the commissaries and exchanges that are so important to the morale of our servicemen and women, and countless other tasks.

And, General Lyles, I remember when I was here when the President visited a couple weeks ago to meet with you and some of the others on your team, and how very proud you were of the role that Wright-Patterson Air Force Base and the labs had in our successful operation in Iraq. And I think so often people take for granted what's happening here and how influential you have been in terms of the modernization of our Air Force.

General LYLES. Thank you, Senator.

Senator VOINOVICH. Congress and the administration too often spend more time examining and trying to ensure the health of the uniformed services than the Defense civilian workforce. To some extent this is understandable. Military personnel are often sent into harm's way, and can expect long separations in harsh, isolated locations from their homes and families. These are just two aspects of serving in uniform that the vast majority of civil servants do not face.

Nevertheless, we must stop overlooking the Defense civilian workforce, and instead ensure that it has the tools and resources it needs to perform its absolutely vital missions. We will ill serve the men and women on the front lines if the workforce designed to support them is inadequately manned and trained.

I would note, however, that this year is different. The Bush Administration is working to address these issues, and Secretary Rumsfeld and his Defense Department team are to be commended for those efforts. And, Dr. Chu, we're very happy that you are here today as the Under Secretary for Personnel and Readiness.

Mr. CHU. Thank you, sir.

Senator VOINOVICH. In March 2001, the Subcommittee held a hearing entitled "National Security Implications of the Human Capital Crisis." Among our panel of distinguished witnesses that day were former Defense Secretary James Schlesinger, who was a member of the U.S. Commission on National Security in the 21st Century. Secretary Schlesinger discussed a comprehensive evaluation on national security strategy and structure that was undertaken by the commission. Regarding human capital, the commission's final report concluded, and this is very important, "As it enters the 21st Century, the United States finds itself on the brink of an unprecedented crisis of competence in government. The maintenance of American power in the world depends on the quality of U.S. Government personnel, civil and military, at all levels. We

must take immediate action in the personnel area to ensure that the United States can meet future challenges."

Secretary Schlesinger added further, "It is the Commission's view that fixing the personnel problem is a precondition for fixing virtually everything else that needs repair in the institutional edifice of U.S. national security policy."

And it's interesting, I think, and in one of the statements that we're going to hear, that some 320,000 military individuals today are assigned a task that could be performed by civilians, and the reason why they are is because there is so much more flexibility in the military side of the Defense Department than in the civilian side.

As I mentioned, since 1999 I have worked to express the urgency of the Federal Government's human capital challenges, and their impact on critically important government functions, such as national security, to my colleagues. I have championed a series of legislative reforms in Congress, which should have a significant impact on the way the Federal Government manages its people in the coming years.

In fact, the first legislative solution I authored had its genesis right here at Wright-Patterson Air Force Base. So it's apropriate that we're having this hearing here today. Three years ago base leadership shared with me their concerns that the civilian workforce was not configured properly to achieve current and projected mission requirements.

Working with my colleagues on the Governmental Affairs and Armed Services Committees, we drafted a measure to address these workforce shaping challenges. I was the primary sponsor of an amendment to the fiscal year 2000 Defense Authorization Act that authorized 9,000 voluntary early retirement and voluntary separation incentive payments through this fiscal year. Of those 9,000 slots, 365 have been used here at Wright-Patterson Air Force Base, 101 of which were used by the Aeronautical Systems Center. I am interested in hearing more about how the Department of Defense, as well as the Air Force and Wright-Patterson Air Force Base, have used those authorities and what impact the announced cuts of 13,000 will have on their reshaping effort and the status of the proposed reductions to the civilian workforce in the coming years and, quite frankly, what's the rationale behind the reductions. Why did this come about?

In addition, significant government-wide flexibilities, which I also authored, were included in the Homeland Security legislation that became law last year. I hope to learn today how the Department intends to use these authorities. For example, the rule of three, a statute which, in order to hire someone, requires managers to take the top three certified candidates, and if they don't like those three, to announce the vacancy again, and so on and so on and so forth. This was changed in our amendment to the Homeland Security Act. How is that going to impact on the Air Force's ability to move forward and get the people they need to get the job done?

Last, but not least, the Department recently presented to Congress and requested enactment of the Defense Transformation for the 21st Century Act, which includes a proposed "National Security Personnel System," NSPS, that would dramatically overhaul the

way DOD manages its people. Although committees in the House of Representatives have examined and marked up NSPS in a series of hearings during the past 2 weeks, I am hoping today that our Senate Subcommittee may learn more of the details and justifications behind this major reform proposal and specifically, if possible, how it might impact right here at Wright-Patterson.

I'm delighted now to introduce today's first panel of witnesses. Dr. David Chu is the Under Secretary of Defense for Personnel and Readiness. Dr. Chu and I have met and discussed the Department's workforce challenges on several occasions starting, I think, at Harvard University when Kennedy School of Government Dean Nye made human capital the topic of a series of executive sessions. I look forward to hearing you tell us about NSPS.

Michael Dominguez is the Assistant Secretary of the Air Force for Manpower and Reserve Affairs. Mr. Dominguez has also been to my office and we've talked, and we appreciate you being here.

Of course, my good friend, General Lester Lyles, is the commander of the Air Force Materiel Command, which is headquartered here at Wright-Patterson, and he is doing just an outstanding job.

And probably the person that I have known the longest—I think the first time I met you was in 1978, when I was running for Lieutenant Governor of Ohio. Dr. Vince Russo is the Executive Director of the Aeronautical Systems Center, which is also based here at Wright-Patterson. We're so lucky to have people like Dr. Vince Russo in our civilian workforce who dedicated their lives to their country.

I'd like to note that these four gentlemen will provide us both with a macro view of the Defense civilian workforce from the Defense Department and Military Department level, as well as the perspective from a major command and base activity.

And rounding out our first panel is the Hon. David Walker, we can call him general too, Comptroller General Walker. He is a very proud Marine. I have worked closely with GAO on various issues during my time in the Senate. David, I appreciate, as I mentioned, your continuing assistance in our examination of the Federal Government's human capital challenges, and I'm grateful for your willingness to travel out to Ohio to be with us today.

Thank you all for coming. It is the custom of this Subcommittee to swear in all witnesses. Therefore, I would ask you to stand and raise your right hands.

[Witnesses sworn.]

Senator VOINOVICH. Thank you. We'll start with you, Dr. Chu.

TESTIMONY OF HON. DAVID S.C. CHU,[1] UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS, DEPARTMENT OF DEFENSE

Mr. CHU. Thank you, Mr. Chairman. It's a great privilege to be here, and I very much value the chance to offer you the Department's thoughts on the crucial issues you have identified, and I do have a longer statement for the record, which I hope I may submit, but I briefly want to summarize some of its key points.

[1] The prepared statement of Mr. Chu appears in the Appendix on page 51.

Civil servants, as you have already noted, are a crucial part of the total force that makes the Department of Defense effective. When I first came to work in this Department in 1981, I was privileged to be associated with some of the people who came with our government in the great wave of Federal expansion during the Second World War, when Mike Huran was the acting general council of the Department of Defense. For a longer period of time there were more civil servants filling in for political appointees than they confirmed general office people in the 1960's when President Kennedy issued his famous call to public service and who had dedicated themselves to the business of government.

When I returned to the Department in 2001, I discovered many of these people had either passed away or had retired or were in the process of retiring. They are gone. And I regret to say during the decade of the 1990's, we did not during this generation have a substitute for these great leaders who leave and from whom we have benefitted.

You and the Comptroller General Walker have spoken eloquently on many occasions about the coming human capital crisis. I would argue that the human capital crisis is upon us, it has already begun with the departure of these valued civil servants. And we in the Department, in my judgment, I will come to arguments in just a second, need new tools if we're going to succeed in recruiting the replacement generation.

You are probably aware, sir, of the recent review published by the Merit System Protection Board that takes a sample of Federal job vacancy job announcements and analyzes them for their effectiveness, and it gives us a failing grade. It makes the point that these do not make the positions that we are seeking filled to sound attractive to young Americans. It does say, and this may be the heart of the problem, that they do a great job of meeting legal requirements. Once that's finished, it's difficult to understand and it's amazing anybody gets through them.

And indeed, that is a point that is made also by the survey that the Brookings Institution has just completed with the 2002 college seniors who are graduating this year. They were asked about their career aspirations, and specifically about their views of public service. Students asked to describe the hiring process in each of the government, non-profit community and the private sector. They ranked the government first in confusion, first in slowness, and first in unfairness. Non-profits were seen the simplest and fairest while the private sector was seen as the fastest.

It is not just the students who complain. The commander of tactical motor command recently provided me with a report from one of his program executive officers who said, "We've encountered this problem when recruiting professional engineers at the GS–12 level and secretaries at the GS–6 and GS–7 levels. Generally, we have to sit the applicant down and explain exactly what to do in order to give them a chance of appearing on a certificate, because left on their own, they have no idea what to do and either apply incorrectly or give up."

And we see that, I think, going back to the Brookings survey just completed, in the attitude of the students graduating from America's colleges torn where they see the chance to offer public service.

They see volunteering 82 percent as being about public service, voting as being about public service, working for a non-profit being involved in public service, but working for the government, only 29 percent of the students see that as public service. And that is an image we need to change.

That's one of the key reasons the Secretary of Defense developed the proposal for a National Security Personnel System. It is a set of proposals that benefits from more than two decades of experimental powers the Congress has given this department, which it expanded substantially during the decade of the 1990's.

Although we have China Lake, which began around 1980, the Department was joined in this by my colleague, Mr. Dominguez, over the last year, really since March 2002, and has been engaged in a major review of the lessons we've learned from those demonstrations, which currently embrace about 30,000 Department of Defense employees.

And we do have authority within the Federal Government within the Department of Defense to expand those best practices to the laboratory and acquisition workforces, and first in the beginning that expansion was published in April 2000.

The proposal for a National Security Personnel System would indeed take these same ideas and apply them to the Department's civilian workforce as a whole, and there are three key features that I would like to emphasize in my summary today.

First, much more expeditious hiring practices so that we are seen as one of the best, not one of the worst, to apply to for young Americans. It takes the Department of Defense an average of about 90 days to hire someone. Today that's far too slow in competition with the private sector.

Second, we would like to move to pay banding for our workforce as a whole, which includes a variety of important attributes, including emphasized work performance in determining someone's pay.

And third, we would like to move to national bargaining with our union partners when it comes to human resource issues that cut across the Department, which currently under the present statute it has been bargained at the local level. It is to solve these hiring problems, it is to be able to convert some of the 320,000 positions we've identified as being possibly those which civilians could undertake to civil service status.

Those are the important reasons for presenting this proposal at this time this year and for urging the Congress to consider this favorably. We look forward to working with you, Mr. Chairman, on this proposal and on your questions this afternoon.

Senator VOINOVICH. Our next witness is Comptroller General Walker.

TESTIMONY OF HON. DAVID M. WALKER,[1] COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GENERAL ACCOUNTING OFFICE

Mr. WALKER. Thank you, Senator. It's a pleasure to be here. I must say that this is very impressive that you were able to get four

[1] The prepared statement of Mr. Walker appears in the Appendix on page 62.

presidential appointees with Senate confirmation to come to a field hearing. It's probably unprecedented, as far as I know. And I can say that I'm here for two reasons, first, the importance of the topic at hand, namely the human capital issue and, second, out of abundance out of respect for you and your ability, because I believe that you're one of the most outstanding members of the U.S. Senate, and it's a pleasure to be here to talk about this important topic.

As you know, Senator, I've been a long-standing supporter of government transformation, and human capital reform in particular. I've also had the privilege of being an observer, and still being an observer, on the Department of the Defense's business practices implementation board, so I know firsthand of Secretary Rumsfeld's, Secretary Chu's, and others at DOD's top leadership commitment to the need to transform the way the Department of Defense does business, and agree that fundamental change is necessary.

At the same time DOD has 9 of 25 high-risk areas on GAO's high-risk list. DOD is No. 1 in the world for the standard of excellence in fighting and winning armed conflicts. It's an A plus. It's a D on economy, efficiency, transparency, and accountability. Part of that is the need for more administrative actions. Part of that is a need for some legislative flexibility. It's clear that management needs reasonable flexibility to deliver results with available resources. At the same time, it's also important that appropriate safeguards should be in place in order to maximize the chance for success and to minimize the chance of abuse.

Current Federal hiring classification pay systems are outdated and in need of fundamental reform. Many of these challenges exist at DOD, and many, quite frankly, are government-wide challenges and not solely those experienced at DOD.

Several of DOD's proposals are agency specific and merit serious consideration such as the military reforms and selected civilian reforms. Others are much broader with significant potential implications for the civil service system in general, and OPM in particular, the Office of Personnel Management, such as broad banding pay for performance and re-employment provisions.

In our view, in GAO's view, it would be prudent and appropriate to consider these on a government-wide basis, not to slow down DOD reforms, but to broaden the opportunity for these reforms to be available to other parts of the government who can demonstrate that they are deserving and have an ability to properly implement these reforms.

Irrespective of whether these reforms are pursued on a single agency or on a government-wide basis, we believe it is critically important to include appropriate safeguards to minimize the chance of abuse and to maximize the chance of success. This is particularly critical in connection with pay for performance and reduction in force provisions.

In my statement I outline a number of suggested safeguards for consideration by you and the Congress, Mr. Chairman. I would respectfully ask that my statement be included in the record, although I may want to make a few minor modifications for the final version. I would also——

Senator VOINOVICH. OK. It's without objection.

Mr. WALKER. Thank you, Mr. Chairman. I would also note the importance that DOD take a more comprehensive and integrated approach to strategic workforce planning. When I say integrated, I mean the uniformed workforce, the civilian workforce, and the contracting corps. All three are critically important to achieve the mission, and all too frequently, as has been noted before, the Federal Government has viewed its civilian workforce as a cost to be cut rather than an asset to be valued.

In addition, I note the importance of giving consideration to adopting a chief operating officer concept, which I note in my testimony, and I won't elaborate on it at this point in time other than to say if we want to make transformation happen, and if we want it to stick, then I believe that this concept has particular merit at DOD in order to ensure continuity and continued effort, not only within this administration, but between administrations.

In closing, GAO strongly supports both governmentwide and DOD transformation efforts and human capital reform initiatives. A number of DOD's proposals have merit and deserve serious consideration. Others have merit, but need additional safeguards. And still others have merit, but possibly should be considered on a broader basis. Doing so would help to accelerate overall progress in the human capital area governmentwide, while not slowing down DOD. It would maximize the chance of success, minimize the possibility of abuse, and avoid the further bulkenization of the civil service within the Executive Branch. Thank you, Mr. Chairman.

Senator VOINOVICH. Thank you. Mr. Dominguez.

TESTIMONY OF MICHAEL L. DOMINGUEZ,[1] ASSISTANT SECRETARY OF THE AIR FORCE MANPOWER AND RESERVE AFFAIRS, U.S. AIR FORCE

Mr. DOMINGUEZ. Yes, sir, Senator. Thank you for inviting me to this hearing. I also have a prepared statement, which I'd like to be inserted into the record, and then I'll follow with these oral comments.

Senator VOINOVICH. All of your statements will be inserted into the record.

Mr. DOMINGUEZ. Thank you. I want to also——

Senator VOINOVICH. It's very important that they do because my colleagues aren't here, and I want to make sure—and also the testimony of this will be shared with the staff and my colleagues on this Subcommittee so that they get the benefit of the testimony here today.

Mr. DOMINGUEZ. Yes, sir. I want to say a special thank you to you for affording me an opportunity to return to Dayton, Ohio. I attended as an Air Force brat junior and much of senior high school here in Dayton, and it's a real joy to be back with the people of this city and this air base. I also want to thank you for the opportunity to participate in this important discussion of the challenges facing the Federal civilian workforce.

My comments to you today, and my approach to the responsibilities of my office, have been and will be informed by my dual status as a presidential appointee and a career Federal civil servant. Like

[1] The prepared statement of Mr. Dominguez appears in the Appendix on page 81.

my colleagues on this panel, I share a deep and abiding respect for the contributions civil servants have made and will yet make to the DOD mission and the security of the Nation.

Air Force people face two-entwined challenges. First, the workload since September 11 has grown enormously, and the second is demand for a different mix of skills than those we now possess. Both challenges must be faced simultaneously on five axes.

First, DOD must adopt modern management practices, and I speak here of results-based government focused on performance outcomes, not resource inputs, and on replacing pay for longevity with pay for performance. We must also understand our core competencies and learn how that understanding ought to affect our management decisionmaking.

The second, DOD must deploy modern IT systems organized around enterprise-wide information architectures. The DOD personnel community led by Dr. Chu is making good progress in this direction, and the DOD comptroller is spear heading the creation of the DOD enterprise architecture.

Third, we have to re-engineer practices, processes, and organizations to take advantage of those modern management concepts and those modern IT systems. Re-engineering will strip work out of organizations, streamline staff, flatten hierarchies, compress cycle times and improve results, and no question about it, fundamentally alter jobs, which leads to the fourth axis. We have to invest in educating and developing our workforce to prepare them for these challenges. It may not be rocket science, but it is hard.

Now, finally, the fifth axis is that the legislation enacted by the Congress must enable this transformation. The proposed changes to the civilian and military, both active and reserve, personnel systems submitted this spring by the Department, in my view, when matched with the advances along these other axes, will create a fast, flexible, agile workforce partnered and aligned with their military and civilian leaders; and to fast, flexible organizations pursuing specifically designed and precisely identified national security outcomes. In doing so, move at a pace of innovation and change that eviscerates any enemy's ability to threaten us. Thank you once again for this opportunity, and I look forward to your questions.

Senator VOINOVICH. Thank you, Mr. Dominguez. General Lyles.

TESTIMONY OF GENERAL LESTER L. LYLES,[1] COMMANDER, AIR FORCE MATERIEL COMMAND, U.S. AIR FORCE

General LYLES. Mr. Chairman, Senator Voinovich, thank you again for the opportunity to address the state of the Air Force Materiel Command's civilian workforce before your Subcommittee. And as the hearing reaffirms, human capital strategic management is a critical aspect of our many transformation efforts. And, Senator, I'd like to let you know that I greatly appreciate the considerable support that you personally have given and provided in this arena, from your successful introduction of legislation to allow the Department of Defense to use separation incentives as a force shaping tool, to the personnel flexibilities you added to the bill creating the new Department of Homeland Security. All of us have

[1] The prepared statement of General Lyles appears in the Appendix on page 92.

benefitted from your tremendous efforts and those of your colleagues.

I'm pleased to report, Mr. Chairman, that the current state of our civilian workforce of 56,000 men and women strong in Air Force Materiel Command is first-rate, which allowed us to superbly provide the capabilities that were needed by our warfighters in size and technology, acquisition and development, logistics, maintenance and sustained testing. However, our real concern is not just with the current state. Our concern is with the future and whether or not the civilian workforce is properly shaped to meet the mission requirements and imperatives for the 21st Century.

Let me call your attention, if I could, to a chart. I would like to illustrate the first chart, if someone could put that up, please.[1] Next chart please. Today the average age of our civilian workforce is 46 years old, which is significantly above that of private industry. They average closer to the late 30's. An older workforce, of course, is an experienced force, and that's helpful in the short term, however, we're concerned that 23 percent of our civilian employees are eligible to retire this year.

If you consider the employees eligible for early retirement, the figure jumps to more like 49 percent, and in 4 years 67 percent of our force will be eligible for regular or early retirement. And our figures reflect that somewhere between 25 and 35 percent of employees retire within 1 year of that eligibility, and an additional 15 to 20 percent separate the following year. Hence, you can see one of the major concerns we have about managing the workforce that's so critically needed to meet our national security objectives.

Clearly we foresee a great deal of employee turmoil over the next several years as seasoned employees retire and replacement candidates are hired.

I might add, Mr. Chairman, that demographically 33 percent of our civilian force is female, 67 percent is male, while minority members represent 21.1 percent of our total force. And we are, in addition to everything else, committed to ensuring we have a diverse workforce, and that we have implemented a number of initiatives, including centralized engineer diversity recruitment programs for our command to help us to achieve this objective.

Next chart, please. So, Mr. Chairman, we talked and are going to talk a lot about workforce shaping, the separation incentives that we currently have available, and those we may need for the future. Our command is extremely appreciative of the opportunity that you and others have afforded us and our centers to reshape our workforce with the passage of these workforce shaping separation incentives and initiatives.

The need for this authority was a key element in our groundbreaking workforce study findings. And it has been particularly valuable to our product and test centers, Air Force research laboratories and in the past, when we closed two of our air logistics centers, to allow us to shape that workforce and shape it appropriately for the missions we have at hand today.

Next chart, please. This chart documents the usage of the authorities that you provided us. In fiscal year 2001, the authority

[1] Charts referred to appears in the Appendix on page 119.

could only be used to incentivize employees currently eligible for optional retirement. This command used 147 of the total 175 allocations that the Air Force executed.

In fiscal year 2002 we were given authority to use a daisy chain and to offer incentives to employees eligible for early and optional retirement and resignations. This command used 362 quotas of the total Air Force allocation of 450.

For fiscal year 2003, this fiscal year, we're authorized 750 incentive authorizations. However, due to the unplanned reductions that our centers must absorb this year, it is unlikely that they will be able to use all of these authorizations. To date we've used 270, and I know for sure we will not be able to use the full 750 that are available to us.

Mr. Chairman, these proposed reductions are affecting all of us in Air Force Materiel Command, just like the rest of the commands within the U.S. Air Force. There is no doubt that these workforce reductions are incompatible with workforce shaping for the most part.

We're experiencing some setbacks in our objectives here, but we feel optimistic that we will still be able to make workforce shaping work for us and work for our command. As we become more efficient through transforming our processes, we're attempting to develop an attrition strategy that balances the need to realign and reduce the workforce with the need to ensure that adequate headroom exists for opportunity for replacement and replenishment strategies to meet the future.

Mr. Chairman, there are lots of things that are currently under way to allow us to better align our workforce. The things that are being done through the proposed legislation and policies, what you've done through the Homeland Security Act, your proposed Federal Workforce Flexibility Act of 2003, and now the National Security Personnel System, we think, will allow us the kinds of attention and actions that are necessary to properly align and shape our workforce for the future.

Mr. Chairman, I will close here, and I look forward to your questions and comments about these and other things we are doing today. Thank you very much.

Senator VOINOVICH. Thank you, General Lyles. Dr. Russo.

TESTIMONY OF DR. VINCENT J. RUSSO,[1] EXECUTIVE DIRECTOR, AERONAUTICAL SYSTEMS CENTER, U.S. AIR FORCE

Dr. RUSSO. Mr. Chairman, let me welcome you to Wright-Patterson Air Force Base. As you know, we call ourselves the birthplace, the home and the future of aerospace. As you also know, we could never say that without the people of the past, present, and the future of Wright-Patterson Air Force Base. The creed of Wright-Patterson was written in 1942, and it states that we will carry on the splendid vision and unswerving power of those great leaders and innovators, Orville and Wilbur Wright, so I'm here today to tell you we still believe in that creed. As a matter of fact, we have a book we give our distinguished visitors, and I believe I've given you one,

[1] The prepared statement of Dr. Russo appears in the Appendix on page 127.

has that as our title, is sharing that vision of the Wright brothers is our creed for Wright-Patterson Air Force Base.

Now, let me take some of the demographics that you've heard about in my written testimony and bring them down to the base level. Can I have my first chart, please. Next please. Sir, this is Wright-Patterson Air Force Base's age demographics, and I would like to call your attention first to the green bars. Just look across there at the green bars. This was our demographics in the late 1980's. You notice they were fairly well evenly distributed, the kind of just demographics, I think, we would like to see.

I call your attention to the first two green bars in particular. If you add the height of those two bars, you will note that 31 percent of our workforce was under the age of 35.

If you now look forward to those light bars, which is our projection for 2007, you'll find our hope today is to exceed 7 percent, which is a tremendously dramatic reduction from the 31 percent under the age of 35 to a projection of maybe only 7 percent.

Now, a lot of people have asked me, sir, why do I do this with pessimism versus optimism, and my answer is it's a mixed bag. I am optimistic because it does give us the opportunity to bring on a new workforce trained in different ideas, trained with different skills than a person like myself may have, so it is a tremendous opportunity for us to revitalize our workforce. But I also temper that with a little pessimism because unless we do this quickly, we are going to lose this incredible wealth of experience.

We are not here dealing with running a Wal-Mart or running a data processing center. We are dealing here at Wright-Patterson with things that are a matter of safety of flight and safety of life. Those things are based on experience. A lot of experience, as we learn from one airplane to another, we pass that experience down to our people.

As you notice, back in the 1980's we had a workforce that allowed us to do that. As we project it in the future, I've become increasingly concerned of our ability to pass that experience base to a new workforce. There are things that you just never learn in college, you have to learn through experience.

May I have the next chart, please. The next chart just gives you the same data with regard to years of service. Next chart, please. So you asked us to talk a little bit about how we use the workforce shaping legislation we've had already. Here's the Wright-Patterson statistics. I broke it down one level below that for you to show the ASC statistics.

The low numbers for fiscal year 2001 are very understandable to me. By the time we got all the implementing criteria it was pretty late. I actually remember getting phone calls at home on Christmas Eve from people asking me should I do this, Vince, or shouldn't I do this. So it's understandable we had a little trouble in the first year.

The second year when we had plenty of notice, you notice the numbers went up dramatically. As General Walker pointed out, we also have that here, the ability to use the daisy chain. When we got to 2003, you see the numbers have fallen again. I think again that's most likely due to our inability to use the daisy chain for backfill of senior leaders.

Next chart, please. So you heard a lot already about the legislation for bringing new workforce on. I would like to say something else. I would like to talk a minute about retention, because not only is it an issue of bringing people on, it's also an issue of keeping them here, so we have put a lot of attention in the last couple of years on the subject of retention. And with your permission, I would just like to highlight a few things just to show you that we believe it's not just bringing people here, but once you get them here, you got to keep them here.

We have established something called a unified retention center where we have a single office for all of our junior enlisted, our officers and our civilians that could go to one place to get issues dealing with the junior workforce. We even gave our junior workforce their own communication devices, their own web pages, their own E-mail distributors, all managed by our own junior workforce.

The sheer issues of that generation, which are clearly different than the issues of our generation. We're doing something I'm particularly proud of, providing probably for the first time that I can ever recall, a diversity training for 22,000 people at Wright-Patterson Air Force Base. All 22,000 of us will go through the same diversity training put together by probably the greatest mind in that business in this country, a guy by the name of Dr. Samuel Papasis. It's an incredible ability to get our people more sensitive to the workforces of the future, which the demographics will be significantly different than those of the past.

And finally, something we focused on is our supervisors. You can go to any HR organization in this country, and they will tell you people do not leave their company, they leave their supervisors. And so we have put an incredible increased attention on getting our supervisors properly trained and properly sensitive to the workforces of the future.

Next chart, please. We have taken on abilities to try to train our leaders. I have a favorite saying of mine, I like to move a workforce from very efficient managers to very effective leaders of the future. So we have our senior leaders. I'm teaching leadership principles to our workforce.

And finally, something that I think I'm equally proud of is our ability to have our workforce get master's degrees right here on base. We have had that capability in engineering through AFIT, and through DAGSI, the Dayton Area Graduate Studies Institute for quite a while. And University of Dayton has recently come on base to help provide lunchtime master's degrees for the engineering workforce.

But just this year we have done the same thing for business people together with the University of Cincinnati, we have brought on board here an MBA program that you could get without ever leaving the base, all done at lunchtime.

So I emphasize for my particular part of my verbal the retention issue. Now, all the issues that were talked about in terms of legislation we fully support. I think that every one of them will make life better for us. I am particularly interested in the ability to speed up the hiring process. I think that is critical.

I also think that contribution compensation is the way to go. I've seen it work in the laboratory based on my laboratory experiences,

and it works, it's a wonderful tool, and I really encourage us to do that.

And so, Mr. Chairman, I hope you share with me the tremendous pride of accomplishment of all the employees here at Wright-Patterson Air Force Base. Every day we strive to make major contributions and do our best for our U.S. Air Force. We are powered by our mission statement that says we bring a warrior spirit to this operation. Thank you for this opportunity to express my views.

Senator VOINOVICH. Thank you very much. I'd like to thank all the witnesses for their testimony. Dr. Russo, I really was pleased with the last comments that you made in terms of some of the things that you're doing to have a better workforce and the importance of providing employees additional training to help keep them on board.

I kind of smiled because when I was Mayor of the City of Cleveland, all of my employees went to diversity training. When I was governor we trained three-quarters of the State workforce, and we found that was one of the best things that we could possibly do to improve our workforce. It helped them become better workers, it improved management and it aided in the workforce understanding each other.

I think many of those employees go home to their own families and take the lessons they learned in diversity training back into their own households. Many of those households had never had diversity training.

And we started DAGSI while I was governor. And I don't know, David, if you know about this or not, DAGSI, The Dayton Area Graduate Studies Institute, and this base were very concerned about whether or not they were going to be able to keep up with AFIT, Air Force Institute of Technology, because they were saying they wanted to be able to reach out to other places to get education.

So as an economic development tool, we put together DAGSI, which allowed employees to use AFIT, Wright State University, the University of Cincinnati, the Ohio State University, and many graduate schools throughout the area so that at one same price people could go out and pick the courses that they wanted. And that was not only important to the people here on the base, but it was also important to the businesses in this area who were looking for graduates, for Ph.D. recipients to work for them. And, of course, we were pleased that the Secretary has re-emphasized the importance of the Air Force Institute of Technology.

I'd like to start off my questions by addressing a local situation, then maybe move up to the big picture. General Lyles, in your testimony you indicated that this announcement on the number of people that you can hire is going to impact on this great challenge you have to reshape your workforce to take on the challenges of this century. That flexibility who granted and you used it. Now it's kind of in limbo.

And I'd like to ask Mr. Dominguez or even you, Under Secretary Chu, on this whole issue of being able to have the workforce that we need, has the Air Force taken that into consideration? Here we are, we want to reshape the workforce, and one of the problems of that mindless downsizing in the 1990's was that once the people

left, they never were replaced. And the object of early separation and early retirement was to make those slots available so that the Department could bring in new people, even at the mid level, that had the necessary skills.

Now I would ask you to comment on what can be done to make sure that we don't end up at the same time granting all kinds of new flexibilities and cutting our nose off to spite our face.

Mr. CHU. I think here at Wright-Patterson you have a specific issue, particularly in this command, Mr. Dominguez' comment in terms of the civilian workforce size, is relatively one in which difficulty is being described for the Department as a whole, we plan to reallocate as many of the buyout spaces Congress has provided us to others who can use them in a particular installation when we cannot use them. That's one way we came very close to a 100 percent, in terms of the buyout usage in fiscal 2000.

I think the challenge that you, however, identified cuts across the entire department, and that is that you've got several developments occurring at the same time. You have reconsideration of which functions are core in the Department of Defense and should be, therefore, performed by duty personnel, either military or civilian, or some mix of the same, as opposed to functions that ought to the performed by the private sector, and that's going to affect our workforce.

We are at the same time, as you've noted, attempting to move from military to civilian status a large fraction of 320,000 slots now in uniform that we believe could be performed by civilians, some by civil servants in particular.

We need a more flexible set of rules under which to employ these new people, and I know for any individual command and individual installation, managing all those moving parts at the same time is going to be a significant task. We do think it's doable, however. I think we can make this come together in a way that's effective. I don't know if Mr. Dominguez wants to comment on Wright-Patterson.

Senator VOINOVICH. The question I have is whether anybody has asked you to do an analysis of what is needed to reshape your workforce. What we decide to do is going to impact you, so how can we accommodate you to help get the people on board that you're going to need. These are frightening statistics here. And you're basically saying that it's frozen and you're going to lose these people from attrition and you're not going to be able to bring in these new people to take their place. Where will we be in 2007? We're in pretty bad shape if they don't have that ability to bring these folks in.

Mr. DOMINGUEZ. Yes, sir. There is no question about it. And this issue for this year is actually now getting to the level where I can get engaged with Dr. Chu and his staff. I mean our approach in the Air Force has been to try to allow the person with the most knowledge and the clearest vision about where the problem is and where the solution lies to organize his attack, and that's General Les Lyles.

And our approach also has been to try and enable them to use all of the policy tools that were enacted by the Congress to shape that workforce without second guessing or putting in rules that the Congress had not contemplated. Where we run into problems is

from others' interpretations of those rules that infringe on General Lyles' ability to do something like allow early retirement for GS–15, promote some of those older people in the 55 and up demographics, and then restructure fundamentally an entry level position at the GS–12 to get in somebody from the private sector or right out of college. That seems to me to be an appropriate use of the kinds of authorities that the Congress provided us. That's the daisy chain that Vince spoke about.

As you know, there are other views in the DOD, and we'll need to sort those out. I believe General Lyles knows best about how to shape this or how to deal with the problem and where he needs to go with it. And to the degree that I can, I will be his ally and advocate in creating the flexibility he needs to get this job done.

Senator VOINOVICH. Well, I would specifically like, and I say this in front of Dr. Chu, to have in writing just exactly how this is all going to work out starting here at Wright-Patterson and going through the other Air Force facilities. When I authorized the workforce reshaping legislation in the first place, we wanted to make it specific to Wright-Patterson, and I couldn't get the votes. So I talked to Senator Inhofe and a few other people who had the same kind of problem in their respective places, and we made these 9,000 slots available. I'd like to know now that everybody is under way, what's the plan in order to deal with the respective responsibilities they have.

Are you going to, for example, reduce the workload or the challenges and restructure like Dr. Russo is doing or will you continue to have this challenge of not having the manpower or the flexibility to accomplish your mission? And I think that's the old business of dotting the I's and crossing the T's and really getting down into the guts of some of these issues to try and make sure that we can continue to shape this workforce and to deal with this problem that's looming in the Air Force and with these facilities.

Mr. CHU. We would be delighted to provide that.

General LYLES. Mr. Chairman, if I can add, the current reductions that we're looking at right now for our command, this is for the entire Air Force Materiel Command, not just Wright-Patterson, is 2,260 positions by fiscal year 2009. That's a thousand military and 1,260 civilians.

And Secretary Dominguez is correct, we tried to use all the tools available to us by both Congress, OSD and the Air Force to ensure that we smartly try to address this problem.

I was able to, with the great help of our tremendous personnel, people, some of whom are on the stage behind me that you've met, some who are in the audience, to figure out if we can use an attrition strategy for this fiscal year so we wouldn't have to send people out the door with a reduction in force sort of prospect. We're probably not going to be able to do that for all fiscal years between now and 2009. We're looking at a wide variety of things that might be available to us to try to address the problem.

One of the initiatives in very simple terminology that Dr. Russo, General Reynolds, myself and all of my commanders are doing is looking at the issue of divestiture. We know there are tasks and jobs and things that we do today that perhaps are not value added,

but yet they add to the workload and burdens of our people to be able to get the job done.

So we're trying to get rid of unnecessary policies, procedures, paperwork, documentation, reporting, all of those things so that we can take workload that is of no value off our plates so they can do the many things that we're asking them to do as part of our mission and our national security objectives, those types of things, along with trying to work with the various tools in ways in which we're trying to address the manpower situation that we're in. And we look forward, of course, in the future, to having the additional legislation provided by you proposed by NSPS to give us even more flexibility to deal with the problems.

Senator VOINOVICH. Well, I think the issue of getting rid of some of that stuff is part of what you ought to be doing anyway.

General LYLES. Sometimes it's much harder than you might think, Senator.

Senator VOINOVICH. I believe it was 2 years ago that I was here when we had a little session with college students. General, I'm not sure you were here for that, but I met with about a dozen students and asked them to share with me whether or not they were interested in going to work for the Department of Defense. It was very interesting. Some weren't interested at all, and others said they didn't know where to get information on it. It was just incredible how little they knew about what was available. And I'll never forget one of the young men, I think he was an electrical engineer, and I think, Dr. Russo, you have some kind of an internship or part-time work or something——

Dr. RUSSO. Right.

Senator VOINOVICH. And I recall the military official who was there that day told the student we need you and I want to have you come on board and so on and we want to talk to you. And I turned to him and he said, how long will it take for this young man to find out whether or not he can come to work here in this program that you have, and he said 6 months. And the bright smile on the student's face disappeared.

And I just wonder with the changes that we put in the Homeland Security legislation eliminating the rule of three and going to categorical hiring, is that going to be able to be reduced down to some reasonable time frame.

Mr. CHU. Yes, sir, I think it can. That's why we've included some of the provisions in the National Security Personnel System legislation. We have attempted to enlarge on them modestly relative to what you did in the Homeland Security Act for the government as a whole. We're very keen on getting exactly what you were hinting at, which is on-the-spot authority for situations like the college job fair.

Obviously you have due diligence like this, checking their references and so on and so forth, but as we've started to do what I would congratulate Wright-Patterson doing at its level, which is reaching out to the colleges, to go to the campuses to recruit young people to tell them about these opportunities.

We must solve the problem you've identified, which is it takes too long to give them an answer. And at that stage in their careers I can understand why they're going to take the offer from our com-

petitor, whether it is General Electric or one that's a State or local government or one that's a non-profit organization because it's here and now. We're going to put them through a several month process. We need to get beyond that. Categorical hiring will help, but we do need, as the national security personnel legislation proposes, expanded on-the-spot hiring authority for certain situations like the college job market.

Senator VOINOVICH. Well, the categorical hiring procedures should have an impact.

Dr. RUSSO. Yes, we have to abide by the rule.

Senator VOINOVICH. But you have the rule of three.

Dr. RUSSO. Right.

Senator VOINOVICH. I think the regs still haven't been published on that.

Mr. CHU. That's correct, sir. Government regulations have not been written by OPM. We are in the process, however, of applying categorical ranking to elements of the defense workforce, where we currently possess legal authority, those are specifically the entire laboratory community and the acquisition workforce, which will eventually benefit Wright-Patterson as well.

We're big believers in categorical ranking. I think it speeds up the process. It also gives the manager a better ability to solve his or her problem. As you know, sir, it's very much modeled on the way military promotes junior officers to the next grade. There is a best qualified pool, which is what is first considered, then a highly qualified pool, a qualified pool, not qualified. You need to take each pool in sequence. It gives more range.

The current system, the reason it takes so long, in my judgment, there is a tedious process of going down these small lists and deciding in excruciating detail whether you have met the mark or not. The practice that you've permitted the Federal Government to adopt that we are in the process of using at the Department of Defense will, I think, substantially improve that, but we still do need, I think, sir, broader on-the-spot hiring authority to deal with the college kind of situation you described.

Senator VOINOVICH. And I would like to say we do have agencies today that are able to hire people with a 3.5 average on the spot, but when you pierce the veil and look into it, it's not what they say it is. Yes, I can hire you, and by the way, I will submit your name up to so-and-so to look at it and then the place you are interested in going looks at you and they also go through this interview process, and you lose a lot of applicants because it's too cumbersome of a process.

Mr. Walker.

Mr. WALKER. Mr. Chairman, GAO prides itself of being in the vanguard of transformation, including in the human capital area. And some of the things that we've done that could be helpful here, some are administrative and some are legislative.

On the administrative front, we've really used internships as a strategic recruiting device whereby we've tried to identify top talent, we've tried to hire people for internships. And what we've been able to do is by keeping them in a position for a minimum of 9 weeks, we can hire them competitively on a full-time basis when they come out.

In addition to that, one of the things that, Senator, you may want to consider is, one of the things we have at GAO is we always have the ability to hire a certain number of critical occupations for—it's limited to number and it's limited to period of time on a non-competitive basis on the authority of the comptroller general to meet critical needs. That concept, frankly, may have merit in situations where you're dealing with critical occupations and you're dealing with critical needs.

The last comment I would make is the Congress has provided additional authority for realignment authority, for buyouts and for voluntary early retirement. I would hope that much of that is being used based upon strategic workforce planning concepts to deal with some of the issues that the general mentioned, rather than position by position because in many cases it's trying to realign the overall workforce to deal with skills and balances, shaping issues and succession planning challenges, which is a broader perspective rather than a position by position basis because you're not going to be able to make a whole lot of progress if you look at it just on a position by position basis.

Senator VOINOVICH. One other thing that came up at that student roundtable was from one of the young men. He was an engineering student from Poland, and because he wasn't a U.S. citizen could not go to work for one of these agencies.

And it seems to me that if you look at the crisis we have in recruiting scientists and others, and if you go to the graduate schools today and look at the countries from where these young people come, you realize we're not producing them here in this country. It seems to me that the Defense Department ought to be looking at ways to attract these people because if you get someone really interested and they have a good background, we should put them to work. There is a good possibility they may decide to stay. And we need them.

Mr. CHU. Absolutely. In fact, the issue has come up in terms of reconstruction of Iraq in which we would like to use individuals who have green card status. The irony as you know, sir, we could enlist them in the armed services of the United States as a non-citizen, they could even be appointed as a reserve officer as a non-citizen, but we cannot, at least under the rule we received from OPM, appoint them as a non-citizen without first going through a long competitive process to demonstrate that there were no American citizens available to take those positions. That's exactly the kind of flexibility that we're seeking in the National Security Personnel System, so we can deal in a common sense way with these urgent needs.

Mr. DOMINGUEZ. Sir, if I may make one last point on this, I want to reiterate our support for the flexibility envisioned in the National Security Personnel System, but we're not waiting for that to happen. The Secretary of the Air Force about 2 weeks ago directed a re-engineering of the civilian fill process across the U.S. Air Force with the objective of dramatically reducing cycle time, so we'll move whatever that we have to move to get this thing to work faster. That could envision technology, new ways of working, eliminating layers of review, deregulating classification authorities and those,

so lots of things we're looking at to re-engineer that process within the next couple of months.

Senator VOINOVICH. Mr. Dominguez, you're a career employee, aren't you?

Mr. DOMINGUEZ. Yes, sir.

Senator VOINOVICH. Can you go back into your career position after this administration? Are you allowed to do that?

Mr. DOMINGUEZ. I am allowed to do that, yes, sir.

Senator VOINOVICH. That's good. That gets back to what Comptroller General Walker was talking about. You have this terrific work that Dr. Chu is doing, and you're doing, and so forth, and we're reviewing personnel flexibilities, but the continuity of the career workforce is very important.

So often a new group comes in and reinvents the wheel, and this concept of having a COO—like Comptroller General Walker has suggested, should be something we may want to consider.

The other thing is, I think, it would lend itself to better recruiting if they knew what they were going to have. There has to be some certainty where people can look down the road and say these people are really committed and serious.

And part of the problem that we identified at Harvard in talking to some of the students was that some would rather go to work for a non-profit or private firm than to go work for the government because, you know, who knows next year or the year after that they're going to outsource the work. If I were in their position, I would want some continuity at the agency I'm going to go to work for.

Dr. RUSSO. Yes, sir. Last year when you had the first potential layoffs at Wright-Patterson, we did lose some people who were on the hook, so to speak, to come work for us, but the uncertainty did change their minds for us. So stability would be something I certainly would like to see, the ability to tell people what to expect. They may not all stay with us, that's OK, but at least they know what they bought into. And sometimes it's hard for us to do that. So stability is one of my issues.

Mr. DOMINGUEZ. Sir, one of the things we're doing, we're very early in the stages of the dialog within the Department of Defense about this, but this is an area where thinking about core competencies can add some stability. There are things we're doing in the Department of Defense, that we have Federal employees doing, both military and civilian, that we really are not the world's greatest experts at. And the advantage of doing it is marginal at best, and maybe negative.

If we can shift our workforce into those areas and those specialties where we have demonstrated competencies, and those competencies are clearly linked to where we're going strategically in the future, and our workforce moves into those areas, the areas we leave behind are the appropriate venues for the marketplace to deliver these services to us in a variety of different ways.

Now, we will still need to put the heat on to stay on the step, innovating and delivering the products and services in our core competencies, faster, better, cheaper, but that's a wholly different thing. You know you're going to be in that business, you're going

to be doing these things. Why? Because this is what we are and it's the Air Force.

Senator VOINOVICH. It gets back to why I asked you to just take a look at these organizations like the one Dr. Russo heads up to see what is the plan, what is the vision.

Mr. DOMINGUEZ. Right.

Senator VOINOVICH. Can you say to them this is where we're going, this is what we want, and you have a career here.

Mr. DOMINGUEZ. Yes, sir.

Senator VOINOVICH. That's one aspect of going to work for the Federal Government today that is attractive to applicants. You know, there are not very many places you can go where they say you have a future. It's one of the things we have available to us that some other places do not.

Mr. DOMINGUEZ. Right.

Senator VOINOVICH. I think it's something that we should take advantage of. We should say to applicants one thing we can offer you is the opportunity to work your way up to Russo's job while doing exciting work and so forth. That's what it's all about, and do something for your country at the same time. And I know that you have the capability of being in the military and geting master's degree that the government pays for, and maybe going on to get a doctorate degree. You do that in the military.

Mr. CHU. That's one of the reasons in the proposed National Security Personnel System we would like to have the authority to waive the current Title 5 restrictions on training. The irony, as you know, for civilians, unlike the military where we can pay to train you if you're a military person for a post, you don't now have that if you're a civilian. It's a much more highly constricted situation. And basically we're not supposed to be paying for civilians to be trained for a job they don't have, which is almost backwards in a way, if you think about it. If you have the job already, we can train you. If you don't have the job, we won't advance you to the next position. That's the place we can go.

Senator VOINOVICH. OK. I think we've kind of exhausted that. I know that there is a great deal of emphasis on broad banding and on performance orientated compensation. And the President initially talked about $500 million to go to a performance-based pay system. And I'm not going to argue about the amount of money, I think it's unrealistic if you look back to see what Congress has done. But the real question, and it's one that I'd like you to comment on, and it's one that Comptroller General Walker and I have talked about on several occasions, is the capacity to do performance evaluations. That is a very time-consuming process. The people who do it need to be trained in writing performance evaluations.

And one of my concerns is that if we go to broad banding, as suggested, and we don't make an effort to qualify people who have the capability of doing the performance evaluation, it could end up being a real detriment. In other words, it will not be successful. And I can tell you for sure when you get started with it, there are those who will say this is arbitrary, capricious, and personal bias gets involved in this, and so forth. And when we start this process, it must be done the right way.

The question I have for you, Dr. Russo, is, do you think that you have the system in place in your shop to have pay-for-performance?

Dr. RUSSO. Not at ASC. We do have it in the laboratory. You're right on with your point. I lived through the first year of lab demonstrations here at Wright-Patterson. I was part of the first team that did this.

Senator VOINOVICH. You did what?

Dr. RUSSO. The first time we went to a compensation based, contribution based compensation in the laboratory.

Senator VOINOVICH. How long ago was that?

Dr. RUSSO. Five years, I think.

Senator VOINOVICH. About 5 years ago?

Dr. RUSSO. Five years ago. I was in the lab for the first year. You're right on. It was a tremendous education program for the workforce. It was hard. It took a lot of effort, but we did it, and I think it was well worth it. As a matter of fact, as I look back on it, I tell a lot of people I think the employees are better served by that system. It's more people looking at the evaluation, not just the supervisor in the chain. Our experience with that has been just tremendous.

And too many people, I think, concentrate on the high end of that, how much is somebody going to be compensated for how much he is contributing. But we found one of the real values is with poorer performers who clearly understood what was expected of them because of the evaluation system; is that they either improved their performance or in some cases they left. And so it didn't matter. We were better off for it. So I'm a real advocate of it. But you are right, it takes a lot of training, it's not easy, especially the first couple years.

But the lab has been in it 5 years, it's more routine, and I think it's broadly accepted. So I'm a strong advocate of that.

General LYLES. Mr. Chairman, if I can add to that. As Vince said, we started off a little rough with the lab demo and acquisition demo, a similar thing we did at Edwards Air Force Base, but after the first brunt of concerns, it's worked very well. And I think we now have the process down that we can train people properly to do those performance evaluations, and we can't say enough about how much we like what we have in the lab demo, and I'm hoping NSPS will allow us to do that and more in terms of flexibility.

Senator VOINOVICH. Well, the real issue is, don't you think, it would be wise to make sure that the agencies are in a position to do what it is that we're asking them to do. And one of the things, Dr. Chu, that bothers me is that the NSPS removes the Defense Department from the oversight of the Office of Personnel Management. There are some of us that are very concerned about that. Is there some compromise that could be worked out so that we know that the people who are going to be implementing this new system are ready? I mean I've heard testimony that if you tie the money in with it, if you go to pay banding then all of a sudden managers will engage in performance management and the reason why they don't do it today and the reason why they don't do it as well as they should is because there is no money connected with the process. And I can't believe that. I think that's not the case.

Mr. CHU. Well, let me speak to the first issue you raised, which is the issue of OPM. For the President's proposed performance fund for fiscal 2004, that each agency must submit to OPM for its approval of the first National Security Personnel System that the policies and regulations would be jointly developed with OPM. So OPM is our partner in moving this forward.

Many of our ideas, and what makes sense here, to come out of OPM's research and OPM's white papers, but I do think across the board, it's exactly what General Lyles and Dr. Russo have described, the advent of pay banding requires each component part of the defense to look at that type of evaluation system and restructure it, which includes re-educating everyone as to what their responsibilities are so, in fact, it can be successful.

And I do think the fact the Department has done this in these various demonstrations, which now encompasses 30,000 of our employees, is some of the evidence you're looking for about our competence to do so. The other competence I will point to is what we do in the military side, it is the same department, while we have different kinds of construct in their promotion system, it is again one where the supervisor is charged with important authority, and the institution exercises significant authority about the advancement of people's careers that we have brought to a high state. And we saw some payoff just recently with the operations concluded in Iraq, so I think the competence is there.

The challenge that both the President's performance fund and National Security Personnel System gives to the civil part of the Department is to bring that across the board to the same level. I think we've shown it in demonstration projects and I'm confident over the 2 years or so it would take actually to apply the National Security Personnel System to the entire department that we would indeed meet the kind of standards that you are describing, that I know David Walker is concerned with, be met as a precursor for gaining such discretion.

Senator VOINOVICH. Comptroller General Walker.

Mr. WALKER. Well, first let me be clear that I individually and we institutionally at GAO strongly support broad band and pay for performance and government transformation, and a lot of conceptually what DOD is talking about. We've had broad banding for over 20 years. We've had pay for performance for about 20 years, so we have real live experience. And we're making a number of changes to continuously improve that.

There is no question that the demonstration projects that DOD has undertaken in the past can provide valuable lessons to help it go forward. At the same point in time I think we have to recognize there is a scale issue. Less than 5 percent of DOD's workforce has been involved in these demonstration projects, so you're going from 5 percent to a 100 percent, and obviously that's not something that's going to happen in one fell swoop or overnight.

There is no question in my mind that the leadership at DOD has the commitment and that the Department has the ability for implementing broad banding and pay for performance on a broad basis. At the same point in time I think it's very important that before any such authority be operationalized now, that's different from authorized, one can authorize this authority, I would argue, not just

for DOD, but potentially for many others as well, but before that authority would be operationalized, then I think that's when it's important to make sure they have certain systems and safeguards in place to maximize the chance of success, to minimize the possibility of abuse, to hopefully prevent a further bulkenization of the Executive Branch in this critical area.

So I think there is a way, there is a sensible center that can, A, allow the Department of Defense to accomplish what it wants to accomplish but, quite frankly, could leap frog us to the future a lot quicker, a lot safer and a lot more consistently.

Mr. DOMINGUEZ. I want to pick up on that point on the leap frog because at this same time while we're talking about expanding the pay-for-performance paradigm to the broader civilian workforce, the President and Secretary of Defense have been pushing very hard on changing our organizational management paradigm to a performance-based, results-based paradigm. So you begin to change the organizational focus and what leaders manage towards, and how they're evaluated at the same time. Then give them a personnel system that aligns and maps to that new form of management, and now you get some really powerful synergy to change the culture that you've talked about very early in this hearing.

Senator VOINOVICH. I know we're probably going to be talking about this in a lot more detail in the next couple of weeks when the defense authorization bill is on the floor, but I'd like to talk about some compromise in this area or some type of standards that have to be met before this system becomes operational. Secretary Rumsfeld has been in the business world, but I can tell you that as someone who has been involved with government employees for a long time that if you want a new system like this one to be successful, you need to cascade it. I mean you just can't whip it into shape and expect it to happen because if you do, the thing will blow up right in your face. It will.

When the State of Ohio implemented total quality management, it took us 5 years to go through over 50,000 employees, and there were cultural things that needed to be changed. It's amazing how much of a challenge this is going to be at DOD. And I'd suggest that maybe even if you picked out certain portions of the proposal and looked at them, the Department might be better able to do it and move from there and learn from some of those experiences. Because to do it overnight or even in a year and a half or 2-year period, that's a mouthful.

Mr. CHU. We recognize those challenges, we look forward to those conversations, sir. It is one of the reasons that we are so pleased we've gotten consistent ideas from the Department on how to proceed for the laboratories and acquisition workforce as a whole. Because that, as I indicated, is something which we're starting to publish Federal notices on, and this is a leading edge of this change, and will give us some of the experience that you're correctly pointing to.

Senator VOINOVICH. OK. I know we're running out of time here because we have the other witnesses. This is great to be the only Senator to be asking questions. And under Senate hearings in Washington, as you know, the witness has 5 minutes, then we have 5 minutes and you just keep moving along.

Dr. Chu, the proposed National Security Personnel System would waive significant portions of Title 5 for the Department of Defense. In some cases it seems DOD has requested waivers that are significantly broader than necessary to make the decided reforms to its personnel system.

For example, the Department would like to be able to bargain collectively with unions at the national level, yet NSPS proposes to waive all of Chapter 71 of Title 5 which governs labor management relations. I'd like you to explain the Department's thinking behind these broad proposed waivers. And the reason I ask the question is I was very involved in the creation of the Department of Homeland Security and the legislation that waived major areas of Title 5.

And in working with Congressman Rob Portman and others, they restored a lot of Title 5 to Homeland Security and then left out six areas to be negotiated, and at the present time those negotiations are under way. And we provided in those negotiations that, first of all, the unions would be involved, and when a 30-day period starts they can lay out the changes that they are going to make at the end of the 30-day period, then they must publish the differences of opinion in the next 30 days and then the new system goes into place.

And with that as a backdrop, to just move in the direction that DOD is going just ignores the fact that the DHS system is still being created, and I must tell you that one of the reasons why the unions were so concerned about it is they understood that what came out of those negotiations probably would be a model perhaps for the rest of the Federal Government. And I know that I'm concerned about that, I know that the Chairman of the Governmental Affairs Committee, Susan Collins, is also concerned about it in terms of the breadth of your moving out of Title 5 and coming up with a whole new system.

Mr. CHU. Let me address that, sir, because, in fact, the actual proposed legislation of language very much takes Homeland Security as a template and then enlarges upon it. A number of the waivers are the same as Homeland Security, some are different, and let me specifically speak to the ones that are different.

We do propose to waive Chapter 31, which is the authority for employment except for that section that deals with the senior executive service, that is specifically to deal with the speed of hiring issue. And I think that's one of the reasons, in our judgment, this will improve the kind of system we can construct if you were to give us that authority.

Both legislative proposals waive Chapter 51 and Chapters 53, we do propose to waive Chapters 55, 57, 59, which are not waived in the Homeland Security Act, but particularly Chapter 55 on pay administration. And the reason for that is, I think, and your colleague, Joanne Davis, in the House has acknowledged, Homeland Security may ask for similar authority, is that the premium pay system in the government, including overtime pay, is so complex that, in fact, it is no longer having the kind of incentive effects that it was intended to create when the Congress and various other authorities are constructed over the years. It's a patchwork quilt.

Among other ironies, if you are a higher grade employee, you actually make less on overtime than you do on straight time because of the limit in the law that says you cannot be a GS–10 step one. Moreover, it's sufficiently complex that supervisors are making well-intentioned mistakes in terms of what people are being offered, and that also means that people are not feeling the kind of incentives that were intended. If no one can explain to them in a straight forward way what am I going to earn if I work on Sunday or work on a holiday or if I do this job under difficult conditions, so it's difficult to rationalize the reason behind the Chapter 55 waiver.

We have requested, as I mentioned earlier, we do want the bridges for training, for which reasons I describe, in my judgment, we have the training machine backwards. It is not the same as the military model. I think the military model has been very successful. I think Mr. Dominguez spoke eloquently, we need to invest in our civil servants. We do not do the job we should in investing in human capital of our human personnel. We view the military outcome—not necessarily the way we do it—but the outcome it produces as the model we want to follow, and we would like to be privileged to make those kinds of investments.

Chapter 33 is waived by both bills, which has to do with competitive examinations that are conducted. Chapter 75 is waived by both bills, as is Chapter 43 by both bills.

We do model our labor relations section on the Homeland Security model, but whereas Homeland Security models see it as something that is waived, we do have in our proposal specifically how we would propose to proceed as far as the beginning is concerned, and there would be a period of notification to Congress. If an impasse is reached, during which time mediation is to be invited to give the Congress a chance to comment that if, indeed, there is a difference of opinion between the Department and its employees.

Senator VOINOVICH. And you're going to waive all of the Chapter 75?

Mr. CHU. That is also, if I understand it correctly, a waiver that's in the Homeland Security law. The Homeland Security Act does have language concerning rights of employees to preserve collaboration and union relations, etc., and we have a somewhat different construct of how that's handled in this proposed statute, but the spirit is to see if we can get agreement to change the current situation, which is one more issue for the Department of Defense. It is all local union bargaining units.

We have 1,366 locals, if I remember correctly. That means for department-wide human resources issues it can take a long time to reach a resolution. My favorite example is the issue of garnishing someone's wages. If he or she does not pay the travel card bill, the last administration, if I understand this correctly, began this negotiation procedure, it is 2½ years later, we still have 200 locals to go through, and in my judgment it's a very straight forward issue. I recognize how individual local leaders would like to bargain over it, but I think that's the kind of thing we should not bargain——

Senator VOINOVICH. I can understand that. And we got into that too with Homeland Security in terms of how to go about doing

these things, and we have a lot of people who are not in unions that are going to be affected.

Mr. CHU. That's a very fair point. Half the workforce is union, half is not unionized.

Senator VOINOVICH. Well, would anyone like to make a last comment or comment on anything that anyone else had to say? I really appreciate it. This has been a good day, and I think from the dialogue here I've learned a lot and I am looking forward to hearing from you about some of the information I've requested.

Mr. Walker.

Mr. WALKER. In summary, Mr. Chairman, I think one of the things we have to keep in mind is that while there is probably broad based consensus on this panel of the need to transform, not only the Department of Defense, but also the government, and the critical element of the human capital, the people strategy has, as part of that, I think you have to recognize the difference between institutions and individuals. And by that I mean there is no question that Secretary Rumsfeld, Dr. Chu, and others are dedicated to doing the right thing here. I think we have to recognize, however, that whatever laws are passed are for all time until Congress decides to change them. Not just for the players that are here today, but the next Secretary of Defense, the next Under Secretary of Defense for Manpower Readiness.

That leads me back to the issue that I mentioned before that you touched on with the chief operating officer, DOD has 9 of 25 high-risk areas. I believe the primary reason that it has 9 of 25 high-risk areas is because you don't have enough continuity of attention on the basic management issues that it takes to solve them over the average tenure of a typical political appointee.

And I believe that whatever Congress decides to do with regard to legislative authority, that if the Department of Defense really wants to transform itself, it needs to consider a level two position, something like a 7-year term appointee who can be responsible for strategic planning and integration with the key players within the Department to focus on these basic management challenges to help transform the Department, no matter who the secretary is, no matter which administration is in charge.

I think that's going to be critically important because, frankly, I don't know that you're ever going to solve these problems unless there is more continuity. This person could either be a civil servant who has a contract for 7 years, it could come from the private sector. It should be performance based. I think the time has come for that, Mr. Chairman.

Mr. CHU. Mr. Chairman, I want to thank you for holding this hearing. I want to thank you for your leadership you've shown over many years, even often when an issue was unpopular and uninteresting to most, and for highlighting it. I do think that you and David Walker have repeatedly said we do face a crisis in human capital in the Department of Defense. We welcome to work with you on legislation to help with the crisis. I'm confident we can produce a good result.

Senator VOINOVICH. Thank you. If I can make one comment about truth in lending, if you will, it perhaps relates to Mr. Walker's comment about the chief operating officer, the proposed legisla-

tion, acts and laws and authorizations are very much needed besides the ones that we have today.

One of the continuing challenges we're always going to have is funding, to actually enact some of the flexibilities that are currently provided to us in statutory authorities or that will be provided in the future. That will continue to be a challenge for us. We're hoping, at least within the Air Force, that we can always make a balance between physical capital investments and human capital investments, and to make sure we don't overlook one at the expense of the other.

Well, I'd like to suggest that the human capital has been neglected, and we have a great football coach, Woody Hayes, and I think Jim Tressel would probably confirm what Woody said, is that you win with people. And we must continue to make sure we got the very best people to get the job done. It gets to Secretary Schlesinger's report, and what you're doing came out of that report.

Mr. CHU. Yes, sir.

Senator VOINOVICH. Dr. Chu, that was the Hart-Rudman report that looked down the road and said the area where the Federal Government really has not done the work is in the area of personnel. It's been neglected, if we don't do something about it, we're going to have a tough time doing a lot of other things that need to be done to make sure that we guarantee our national security.

Dr. RUSSO. Sir, we spent a lot of time this afternoon talking about the things we need to make it better. I would like to end by assuring you the workforce we have here today, at least within Wright-Patterson, and I believe within the Air Force and the DOD is still one of a bunch of marvelous, dedicated civilians, they go beyond the call of duty day in and day out.

I think the things we witnessed over the last couple years in our Air Force's ability to support our country is a testament to a lot of civilians, as well as military that work with us, I'm pleased even though we have problems, we still survive pretty well.

Senator VOINOVICH. They've done a good job because we have a lot of people like you, Vincent, that really care. You're dedicated people that really care about what you're doing and you care about your country, and I thank you and I thank the others that are here.

Dr. RUSSO. There are a lot of us.

Senator VOINOVICH. They all are back behind you and we thank you for what you do.

Dr. RUSSO. Thank you, sir.

Senator VOINOVICH. Thank you. I'm going to call a recess for about 5 minutes until the next panel can come in.

[Recess.]

Senator VOINOVICH. We're going to continue our hearing and hear from our second panel of witnesses that will offer us an outside perspective on the issues that we're considering here today. Dr. Beth Asch is a senior economist with RAND, who has conducted extensive research on Defense workforce reshaping authorities.

Scott Blanch is the president of AFGE Council 214. And I'd like to say to you, Mr. Blanch, that we hear a lot from Bobby Harnage,

who is a good friend of mine, and we spend a lot of time together. He is going to be in my office, I think, tomorrow morning.

Mr. BLANCH. Very good. It's very important.

Senator VOINOVICH. Michael Durand, who is pitching in for Pamela McGinnis. Mr. Durand is the deputy treasurer of AFGE Local 1138 based here in Dayton.

And J.P. Nauseef who is vice president of Aerospace Defense Technology of the Dayton Development Corporation, and he is pinch hitting here for Ron Wine who has a medical family situation that he is trying to take care of for his mom and dad. Please give Ron our very best and we appreciate your sharing the situation. As was the case with the other witnesses, I'd like you to stand and raise your right hand.

[Witnesses sworn.]

Senator VOINOVICH. Let the record show that all of the witnesses answered in the affirmative. Our first witness is Dr. Beth Asch, who is a senior economist with RAND. Again, thank you for being here, Dr. Asch.

TESTIMONY OF DR. BETH J. ASCH,[1] SENIOR ECONOMIST, RAND

Dr. ASCH. Mr. Chairman, thank you for this opportunity to provide input to DOD on civilian workforce management. I've prepared a written statement that's been submitted for the record, and at this time I'll just make a short statement and answer any questions you might have. In my statement this afternoon I'll briefly summarize RAND's research results on the effects of workforce shaping tools on the retirement behavior of Defense civilian employees.

Our research estimated the effects on the probability of retirement of the Voluntary Separation Incentive Program or VSIP, of the Voluntary Early Retirement Authority or VERA, and the retention allowance.

The first two programs are intended to increase the financial incentives to voluntarily leave, while the third is intended to increase the financial incentives to stay in the civil service.

Both VSIP and VERA were used during the 1990's by Federal agencies to reduce employment, but recently both have been identified as tools to help Federal managers shape the experience and skill mixes of their workforces. By providing Federal workers with an incentive to retire early or separate, it is hoped that managers will be better able to hire and possibly outsource replacement workers with different skills and experience levels.

A key question is whether these flexibility-related tools are effective. Our study finds that if used, these tools could be highly effective in changing retirement behavior among Defense civilian employees.

Our study focused on Defense civilians age 50 and older who participate in the civil service retirement system or CSRS. We found a large effect of retention allowances, offering an older employee the maximum retention allowance of 25 percent of pay over the rest of his or her career would reduce the probability of retirement

[1] The prepared statement of Dr. Asch appears in the Appendix on page 145.

by about 20 percent. VERA was estimated to more than double the separation and retirement rates for the civil service among those who would be eligible for that benefit. VSIP was estimated to increase separation retirement by about 30 to 40 percent, depending on age.

These estimated effects are very sizable, but at the same time are quite consistent with studies of private sector retirement behavior. There are two points that are noteworthy. First, these estimates are not an assessment of the past success of VERA and VSIP as tools to accomplish downsizing in the aftermath of the cold war. Rather they represent predictions of their effects on retirement behavior based on estimates of how Defense civilians generally respond to the financial incentives embedded in CSRS.

Second, our study didn't consider the costs of offering these workforce shaping incentives, and so we can't draw any conclusion at this time about relative cost effectiveness.

Now, so far the authority for VSIP and VERA for workforce shaping purposes has been limited in DOD. Currently, DOD has authorization for 9,000 VERA and/or VSIP payments. Given that the DOD has about 400,000 employees who would be eligible for either early or optional retirement, these authorities are really quite small relative to the size of the Defense civilian workforce that would be the target population for these tools.

Available evidence also suggests that retention allowances have not been widely used in the past. The OPM estimated that retention allowances were given to less than 1 percent of all Executive Branch employees in 1998.

So why don't civil service managers use the flexibility-related pays that are available to them? One reason that's been put forward by the OPM is excessive bureaucracy in the approval process. Another reason put forward in the context of the Defense laboratories by the Naval Research Advisory Committee on Personnel Management in the Defense science and technology community was the absence of leadership. The committee stated in its report that in the absence of a sustained commitment to use flexibility-related tools aggressively in the Defense laboratories, most tools were unused or underutilized.

Successful management of the Defense civilian workforce has become even more important in recent years, not only because of the changing national security environment and the war on terrorism, but also because of the aging of the Defense civilian workforce. Successfully responding to this aging will require that DOD actively manage the departure of retiring employees and the hiring of new workers or contractors to replace them, and must define its workforce requirements, and then develop a plan that coordinates the timing of retirements with the replacements.

Importantly, it will also need to aggressively use workforce shaping tools to successfully implement the plan. Because of the potentially important role of these tools, the personnel managers in the DOD should be given expanded authority and expanded resources to use the flexibility-related policies extensively. Our estimates show that such policies would be effective if they were used.

This concludes my oral statements here, but I'll say that in my written testimony I also talk about evidence on how the civil serv-

ice personnel system has worked in the past in terms of workforce outcome, summarize some of the research on the effectiveness of the waiver programs, talk about what factors are related to the successful civilian personnel management. So I just wanted to let you know there are other topics, but I didn't want to take up too much time today. In any case, I'm happy to answer any questions that you have.

Senator VOINOVICH. Thank you very much. Mr. Blanch.

TESTIMONY OF J. SCOTT BLANCH,[1] PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, COUNCIL 214, AFL–CIO

Mr. BLANCH. Senator Voinovich, my name is Jon Scott Blanch. I'm the president of the American Federation of Government Employees Council 214 AFL–CIO. Council 214 is the national consolidated bargaining unit that represents by far the majority of the bargaining employees employed by the U.S. Air Force in the Air Force Materiel Command (AFMC). Council 214 consists of ten AFGE local unions at the following Air Force Materiel Command Air Force bases, Wright-Patterson; AFMETCAL Department in Heath, Ohio; Tinker Air Force Base in Oklahoma; Warner Robins Air Force Base in Georgia; Hill Air Force Base in Utah; Edwards Air Force Base in California; Kirtland Air Force Base in New Mexico; Eglin Air Force Base in Florida; Brooks Air Force Base in Texas; and Logistics Support Office in Michigan.

In all, the Council 214 bargaining unit totals approximately 36,000 AFMC workers across the command. It is Council 214's role to address issues that have command-wide impact on bargaining unit employees the council represents. This is accomplished through negotiations and collaboration at the AFMC Council 214 level.

For example, the master labor bargaining agreement between AFMC and AFGE Council 214 was negotiated at this level and is applied command-wide to Council 214's bargaining unit. Other examples of what we do here are Air Force instructions, DOD manuals, Air Force supplements to AFI's or DOD manuals, and AFMC policies that affect the working conditions of the 214 unit command-wide or multiple bases over the command.

With that in mind, I deeply appreciate the opportunity to testify on behalf of the thousands and thousands of AFMC bargaining unit employees AFGE Council 214 is proud of and proud to represent. They're a vital, skilled and dedicated national asset focused on one mission, that being to support this Nation's warfighters through developing, modifying, testing, maintaining, and delivering the best weapon systems the world has ever known in the past, now, and in the future.

What AFMC does is a team effort, and the leadership of the AFMC team is exemplary. It is my opinion, and the opinion of AFGE national president, Bobby Harnage, that General Lester Lyles and his senior staff are the best there are in taking care of their employees, so they, the employees, can take care of the AFMC

[1] The prepared statement of Mr. Blanch appears in the Appendix on page 158.

mission, military and civilian alike. When we say the best, we mean the best in the entire Federal sector.

In that spirit, AFGE Council 214 and AFMC work in partnership. Together we have committed to develop and advocate the means to fully implement our labor/management partnership and to make AFMC an exciting, but productive and rewarding place for people to live and work. AFMC is a huge, diversified and complex command, as is the Council 214 bargaining unit structure. But we, AFMC and AFGE have been and will continue to work in collaboration to meet our challenges now and in the future, both internal challenges and external challenges, where appropriate.

AFMC may be able to do things independently, AFGE may be able to do things independently, but the parties recognize that working together when we have mutual interests that there is probably not much of anything we cannot accomplish. That is our race strategy, and we are committed to going the distance.

The instructions I received Friday in my invitation was it asked me to testify on five issues. The first three issues refer to Wright-Patterson Air Force Base specifically. I will defer my testimony to the specifics at Wright-Patterson to Deputy Treasurer of AFGE Local 1138, Deputy Treasurer Michael Durand. I will testify to the same issues from an AFMC command-wide perspective with your permission.

Senator VOINOVICH. Sure.

Mr. BLANCH. I base this perspective on my personal knowledge and experience in the AFMC/AFGE partnership activities and face-to-face discussions with bargaining unit employees and local union leadership. As an original charter member of the AFMC/AFGE partnership council, I am now co-chair of that council, it has been my privilege to visit every AFMC base that is represented by AFGE Council——

Senator VOINOVICH. Tell me again your—the council is made up of who again?

Mr. BLANCH. The AFMC, the AFGE Council 214 or the AFMC partnership council?

Senator VOINOVICH. The partnership council.

Mr. BLANCH. The partnership council is made up of—we have a local and a base manager from the air logistics center, product center, and a test center, then we have the chairman of the council, two co-chairs of the council, and then we have personnel and the vice president of the council.

Senator VOINOVICH. So it's a labor/management council for better labor relations, is that it?

Mr. BLANCH. Yes. It's like a center director, a director from the logistics center, a director from the test center, a center director from the product center, then you have union leaders the same way. That's the command partnership council.

Senator VOINOVICH. OK.

Mr. BLANCH. That's how it's made up. Where was I?

Senator VOINOVICH. I'm sorry.

Mr. BLANCH. That's OK. I base this perspective on my personal knowledge and experience gained through the AFMC/AFGE partnership activities and face-to-face discussions with bargaining unit employees and local union leadership.

As an original charter member of the AFMC/AFGE partnership council and now co-chair of that council, it has been my privilege to visit every AFMC base that is represented by AFGE Council 214. Not only does our partnership council con-ops require the council to rotate bases, but they also require that the partnership council be provided a mission briefing at every base before we visit. I've received this briefing at every base.

The partnership council is also provided a tour of each base to allow us to see up close and personal on what exactly the employees of that particular base do, how they do it, how they are working to improve the way they do it, and tell us how they feel about the work they do. A valuable experience.

In my day-to-day dealings I also receive the rest of the story through conversing with local union leadership and disgruntled employees who may not feel comfortable airing their frustrations and complaints during the partnership council tours. I am also frequently approached by management officials to share concerns. If something is going on, either good or bad, that pertains to the bargaining unit, I hear about it sooner or later, one way or the other. Based on the above, my testimony is submitted, and we'll be happy to address any questions you have.

Senator VOINOVICH. Thank you. Mr. Durand.

TESTIMONY OF MICHAEL DURAND,[1] DEPUTY TREASURER, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES LOCAL 1138

Mr. DURAND. Yes, sir. Good afternoon to everybody, Senator. I'm here on behalf of Pamela McGinnis, president of Local 1138, who due to family illness could not attend. My name is Michael Durand. I'm deputy treasurer of Local 1138 of the American Federation of Government Employees AFL–CIO. Senator Voinovich, on behalf of the members of Local 1138 I would like to thank you for the opportunity to make a statement today to you and the Members of the oversight Subcommittee.

First I would like to address four major concerns that you outlined in your letter of April 21. And I would like to offer solutions to these personnel challenges for your consideration.

First, it is my opinion that the civilian workforce at the Wright-Patterson Air Force Base has been severely demoralized because of the continuing reduction in force which we have been subjected to nearly every year for the past decade. This is especially true among the younger population who no longer see employment at Wright-Patterson as a long-term option.

This continuing downsizing affects how they view their future. It affects how they perform their jobs. It affects their motivation because opportunities for advancement become fewer with each surplus action. And in better times they would be on a fast track. Today their government careers are dying on the vine.

Second, it is my perception that the DOD 2001–2002 fiscal year authorization bill which offered early retirement and separation incentives gutted the civilian workforce of its knowledge base. Furthermore, in conjunction with the downsizing, the remaining em-

[1] The prepared statement of Mr. Durand appears in the Appendix on page 175.

ployees have been stressed by the additional workload imposed on them and upset once again by the lack of promotional opportunity and mobility in their careers.

Third, the proposed reduction for fiscal year 2003 and 2004 will continue this cycle of despair. This is the worst time, as we ponder our fate, before the first wave of notices are sent out. The question begins will I lose my job this round or just transfer again. Will I be downgraded this time. Managers and supervisors worry about losing their key employees, the ones with the most knowledge, the most dedication. They also face the possibility of being displaced, downgraded, or laid off themselves.

Every reduction in force I have witnessed has created an atmosphere of complete turmoil and confusion in spite of the fact that it has become an annual ritual at Wright-Patterson. It just gets worse, not better.

In a memorandum dated October 25, 2002, the Air Force Materiel Command announced the new reductions, with the caveat that there is virtually no chance that the projections will decrease, but decisions by the Air Force may very well increase the command's total share of the 2004 reduction mandate as well as those of the out years. That's hardly encouraging news for the workforce here.

Fourth, possible changes in the law that would enhance the Department of Defense's ability to manage its civilian workforce should include the following: A, require agencies to identify what happens to the workload from positions subject to proposed surplus action. For example, will the work be distributed to other persons of like kind and grade? If not, what effect will eliminating the workload have on the mission of this organization?

B, required payoffs and voluntary retirement incentives to be separate from the downsizing process. Vacancies resulting from incentives, usually targeted for the older population near retirement age, will provide promotional opportunity for the remaining workforce. This would have a positive effect on morale and offset negative impact of surplus action. If surplus actions are deemed necessary, they should be determined by factors other than the fact that a position was voluntarily vacated by the incumbent.

I would like to discuss a collateral issue that is directly related to workforce morale and stability for your consideration. It is the issue of contract services. During the past decade, the Pentagon has decreased its civilian workforce by nearly 300,000 while increasing its cost of contract services by 40 percent.

I would like to propose the following legislation to provide a level playing field for the civilian workforce when our jobs are on the chopping block. One, place a moratorium on contracting out jobs traditionally performed by civilians until an accounting is complete which identifies the number of contract employees which have been hired to replace civilian employees, the cost of such contracts, and the work being performed. Statistics from this database should be accessible to the public as well as other governmental agencies, labor organizations, the media, etc. The civilian workforce should be allowed to bid on these contracts as they are renewed.

Two, free agencies from privatization quotas, whether self-imposed or imposed by the Office of Management and Budget. This will take the pressure off of agency managers to contract out serv-

ices that are more efficiently performed in-house by knowledgeable career employees.

Three, allow Federal employees to compete for their own jobs as well as for the new work in order to save money for taxpayers. This will eliminate the discretion by DOD managers to simply give most work of contractors without—to contractors, excuse me, without any private or public competition.

Four, make the competition process more equitable and more accountable by providing Federal employees with the same legal standing enjoyed by contractors.

In closing, I believe the Air Force should slow down its downsizing in view of what is happening nationally with all the challenges facing our country, the constant threat of more terrorist attacks, and a possible pre-emptive attack on Iraq by our military forces. It defies reason for the Air Force to carry out its arbitrary manpower reductions for the current fiscal year and beyond. During this time of uncertainty and insecurity, downsizing the civilian workforce should be put on hold.

Furthermore, more than 5,000 Federal employees have been called into active duty and deployed to overseas locations. How many of these 5,000 civilians work at Wright-Patterson? Who will do their job while they are gone? Will the absence from the workplace be considered in the current downsizing equation? These questions need to be addressed before any further manpower reductions are even considered.

For now, I thank you for listening and giving me the opportunity to make this statement on behalf of the members of AFGE Local 1138. I hope we can do this again. Thank you, sir.

Senator VOINOVICH. Thank you, Mr. Durand. Mr. Nauseef.

TESTIMONY OF J.P. NAUSEEF, VICE PRESIDENT, AEROSPACE DEFENSE TECHNOLOGY, DAYTON DEVELOPMENT COALITION ON BEHALF OF RONALD D. WINE, PRESIDENT & CEO, DAYTON DEVELOPMENT COALITION

Mr. NAUSEEF. Mr. Chairman, I'm presenting testimony on behalf of Ronald Wine, president and CEO of the coalition who was scheduled to speak, but, unfortunately, due to some family health concerns Ron is attending to those issues with his family right now. Ron very much wanted to be here to present his testimony personally, and he sends his sincere regrets, Mr. Chairman. I ask that Ron's full statement be included in the record in its entirety, and I will summarize his remarks for you.[1]

Senator Voinovich, on behalf of the coalition and the entire Dayton business community and the 12-county area that we serve, we would like to welcome you back to Wright-Patterson Air Force and the Dayton region. It is an honor for us to have you here holding these hearings in our community. Thank you very much.

Ron wanted to extend his personal thank you to you, Senator Voinovich, for holding this hearing on the topic of the Defense civilian workforce. The coalition is deeply grateful for your consistent leadership in looking out for Wright-Patterson Air Force Base and

[1] The prepared statement of Ronald D. Wine, President and CEO, Dayton Development Coalition submitted by Mr. Nauseef appears in the Appendix on page 179.

the thousands of talented and dedicated men and women who work here.

This is a wonderful time to visit Wright-Patterson Air Force Base and the Air Force Museum as we make final preparations for our celebration of the 100th anniversary of the Wright brothers first flight.

So great is the magnitude of this base on our region's economy that statistics barely tell the story. Over 20,000 civil service, military, and contract employees work on the base. Putting it another way, about one out every 18 jobs in the entire metropolitan area is physically located within the fence of Wright-Patterson Air Force Base. The base is by far the largest employer in the metropolitan area. In fact, it is almost three times larger than the second largest employer.

Wright-Patterson is more than just a national defense asset and an economic engine to this region. It represents a solid base of citizens in our community. Its workers contribute to local charities through the combined Federal campaign, they are Boy Scout troop leaders, hospital volunteers, and school tutors. And because of Wright-Patterson, the Dayton area has one of the highest concentrations of Federal civil service workers outside of the Washington, DC area.

The workforce of the base is very special. It's a highly stable, educated and active group of motivated people. They are the kind of workers every community wants. Few places are as lucky as the Dayton region to have these workers. That is why we care so much about Wright-Patterson and its people, especially its civilian workforce.

Not only are civil service employees at Wright-Patterson large in number, they are diverse in function. That means that if there is a problem with any aspects of civil service law or regulation, that problem may show up here. In fact, Wright-Patterson may be a microcosm of many of the challenges that face civil service reform.

We are proud that Wright-Patterson probably has more employees in science and engineer classifications than any other single Federal installation. Recent pilot programs authorized by Congress, again with your help, Mr. Chairman, have made important contributions to workforce flexibility in these important areas.

A large challenge in our community is the sheer decline in workers. Through the 1980's the workforce at Wright-Patterson increased slowly, hitting a peak of 30,000 civilian and military employees in 1989. We have seen a steep, steady decline since then.

We understand that Dayton's loss is largely the result of America winning the Cold War and facing a requirement for a smaller military. This is good for our Nation, and we embrace the change.

Still, we are concerned that the cuts might be too deep. Hiring freezes and last-hired, first-fired rules have created an aging workforce. We risk losing enormous institutional memory when large groups of our senior employees leave at once. Managers need the flexibility to give workers a healthy balance of a combination of young vigor and senior wisdom.

Thanks to your efforts, Mr. Chairman, Congress began to tackle this problem a few years ago, and some progress has been made. Mr. Chairman, the title of this hearing, An Overlooked Asset: The

Defense Civilian Workforce, is all too appropriate from a national perspective. However, I can assure you that here in the Dayton area we are proud of our civilian workers' unselfish contributions they make to our national defense. They are not overlooked by our local leaders, nor by our representatives in Washington.

Thank you again for giving the coalition the opportunity to express our support for you and for these important issues. Thank you for your leadership and dedicated service, especially for holding this important hearing here at Wright-Patterson Air Force Base, the birthplace and future of aviation.

Senator VOINOVICH. Thank you very much. As you may know, one of my concerns has been what I refer to as mindless downsizing. And what I'm picking up from you, Mr. Durand, is that the downsizing continues. Do you have any members that work in Dr. Russo's shop?

Dr. RUSSO. The air base wing.

Mr. DURAND. The air base wing.

Senator VOINOVICH. Are you familiar with what's going on in Dr. Russo's shop in terms of taking advantage of the legislation that we provided? The purpose of it was to allow him to shape his workforce, meaning that he could provide voluntary early retirement or voluntary early separation payments, but that rather than having less people, those slots would remain open so that he could bring in new people to deal with the challenges that he has and to get, in some instances, some expertise that he needs that he doesn't have in his current workforce, but it wasn't meant to have less people. Is that your observation?

Mr. DURAND. I would like to say that mostly what I've seen in the last couple years a reduction has occurred, but it has come in and is slow in coming, but most of the positions that have been reduced by employees leaving the workforce has not been filled at the moment and people that are staying there are right now gathering and doing the job of those vacancies, and it's kind of a morale issue at this point.

Senator VOINOVICH. So your impression is that they're still losing people and they're not bringing new people in?

Mr. DURAND. They're trying to get people in, but, sir, at the moment it's not that quick. The turnover is a little bit more. We have lost more folks than we have brought in at the time, and I'm talking about my organization at the moment.

Senator VOINOVICH. Yes. Some of the people that you're losing occurs through attrition. Many of them are retiring, correct?

Mr. DURAND. That's correct.

Senator VOINOVICH. Do you sense a crisis in retirement and loss of institutional knowledge?

Mr. DURAND. Yes, we do. We do sense that there is a crisis of knowledgeable people walking out the door and not passing that information on to the younger generation walking in.

Senator VOINOVICH. Mr. Blanch, you're familiar with what's going on at various places your council represents. I notice you had some very complimentary words for General Lyles and his operation here. I know that Bobby Harnage has a lot of respect for General Lyles, and I've talked with him about it. He challenged me one of these days to come out here and spend some time with him and

with General Lyles. But I like your observation. What we're trying to do is reshape, not downsize. And does it look to you like it's downsizing and not reshaping?

Mr. BLANCH. Well, we went through the decade of downsizing in the 1990's and then we went through the fiasco with the privatization in place, and we got all that behind us, we got that done, that was a lot of work to make that happen, so a lot of——

Senator VOINOVICH. That was the challenge the previous administration cited, you had to get rid of 57,000 people and outsource or downsize.

Mr. BLANCH. Right. Specifically the ALC's were only running 60 percent capacity. It was killing us on labor rates. We went through all that, and my observation command-wide is we're at the point now where we've kind of stabilized. I'm talking a command-wide look here. What I see, especially in the Air Logistics Centers, we are in a hiring mode out there.

Senator VOINOVICH. What?

Mr. BLANCH. Hiring people. We're having trouble, AFGE, and this is one thing that we agree on in this partnership, we agree the hiring process needs to be fixed. And we're seeing it out there in the air logistics centers. They need people desperately and they can't get them. And if they do get them, it takes way too long, it's just way too hard. As far as I see that, we're at the point now where we're kind of stabilized, we're looking more at right sizing more command-wide.

Senator VOINOVICH. And has your union done any calculation—were you here for the first panel's testimony?

Mr. BLANCH. No, sir.

Senator VOINOVICH. OK. We got into the announcement that they made to get rid of 13,000 people throughout the Air Force. And has your observation been that since that's been announced that it's impacting on your membership at these various facilities that you're responsible for?

Mr. BLANCH. Well, that gets into just the arbitrary manpower cuts just announced recently.

Senator VOINOVICH. Yes.

Mr. BLANCH. The manpower cuts that were announced, that's what you're talking about. When I was first briefed on that I was told the only base that was going to lose positions or lose jobs was Wright-Patterson. And the reason being the air logistics centers which we were in a hiring mode, I was told Hill Air Force Base at that time was sitting on 800 vacancies they needed to fill and couldn't fill.

We've got a new modern personnel system that just came on board, it has got a lot of bugs in it, they're doing a lot of workarounds, it's just real hard. And I was informed that Wright-Patterson would be the only base that would actually take any cuts. Everybody else would do it through attritions and by absorbing vacancies.

My position was that we need to take these vacancies because I assumed that if Hill Air Force Base had vacancies, the other ALC's would have had vacancies, so it was my position to absorb those and to use vacancies that we have at other ALC's so we don't lose people. It didn't make sense to me to let people at one AFMC base

with years of service out of the gate while we're trying to hire other people off the street at other bases.

And my understanding is that's what we did in 2003, that's the approach we took, and so there wouldn't be any cuts in 2003. We have 2004 and beyond coming up.

Senator VOINOVICH. Are you familiar with the level of employment here in the last couple of years in terms of your membership? Have you lost members or have you gained members?

Mr. BLANCH. I would say as far as potential members in the last couple of years——

Senator VOINOVICH. Yes.

Mr. BLANCH. I would say we've probably been pretty stable. A lot of what Dr. Russo said about the workforce shaping initiatives and stuff, these are professional series employees. I understand the challenges they have in getting these folks. We don't represent those folks. They're not in the bargaining unit. But we talk about them a lot in the partnership council activities and things like that. I see the challenges they have to get these college graduates on board. But as far as the bargaining unit, like I said, I'm not as familiar with it probably as much as Mike would be because I have the whole command. I might defer that specifically to Wright-Patterson to him.

Senator VOINOVICH. Dr. Asch, you've been observing it. What is your appraisal?

Dr. ASCH. It being?

Senator VOINOVICH. In terms of they have these new authorities that we granted them, 9,000 slots, and they started to utilize them. Is it working out as we envisioned, that is providing early retirement, early separation and are we reshaping, in your opinion?

Dr. ASCH. I don't know if we're reshaping to the extent that there is a requirement—some people are going out the door and they're being replaced with skilled people who—or with people who have more appropriate skills, which is my impression of the intent of having workforce shaping tools. What we know is that these incentives are effective in getting them out. Whether or not they're achieving the workforce that's going to make the mission by hiring or whatever, that I don't know.

Senator VOINOVICH. So you haven't decided. You know that the tools do work though?

Dr. ASCH. That they do work?

Senator VOINOVICH. That people do take advantage of them. If I recall from your testimony, you said that a lot of it had to do with people just figured out they're financially better off taking advantage of it and do it.

Dr. ASCH. Not everybody who was offered it takes it because obviously people make these decisions for a range of reasons, but there is a marked change in their behavior as a result of financial incentives.

Senator VOINOVICH. There is always the argument—we did early retirement when I was mayor and as governor, and you're supposed to end up with less cost. But if I'm not mistaken, it's not that much less and you have to weigh that against the institutional knowledge that's going out the door, so you got to do it very carefully——

Dr. ASCH. That's right.

Senator VOINOVICH [continuing]. So you make sure that you don't leave yourself without the people that you need to get the job done.

Dr. ASCH. Or conversely, there will be separation incentives towards maybe mid career, even more junior workers sometimes—for example, I'm thinking of the separation incentive for military personnel. And if you do that, you can change the mix that way too. So I agree with your point, which is you can lose the productivity of those people, but at the same time—the way you do it will affect the age mix as well, so you have to be sensitive to that.

Senator VOINOVICH. Was it Mr. Blanch or Mr. Durand that commented on the fact that downsizing has impacted on the current workforce, that they're a little demoralized because of it?

Mr. DURAND. Yes, I did, sir.

Senator VOINOVICH. And from your observation, has that impacted on the ability to recruit? We were talking at the last hearing about the fact that when people come to work for an outfit, they would like to have some idea of where they're starting and where they could end up and the kind of work that's there and so forth because that's something to which they're going to devote a lot of their life. And have you observed that there is a lot more uncertainty? How long have you been with the Federal service, Mr. Durand?

Mr. DURAND. Twenty-three years.

Senator VOINOVICH. Twenty-three years. And this downsizing really took place during the 1990's?

Mr. DURAND. Yes, sir.

Senator VOINOVICH. Do you want to comment again in terms of recruiting new people, on the effect of this downsizing on the government's ability to get new people to come to work for them?

Mr. DURAND. No, not in recruiting new people, I'm not saying that it is affecting it. I'm just saying they do bring new tools, and Dr. Russo has done a very good job in promoting some of those, and to come up with tools they also have to meet organizational goals. The organizational goals are kind of molded into us when we come here and we have years of experience of what the goals are. When the tools are brought in, a new generation is brought in, they have to be taught these goals, these are the directions we are going to. That's all I'm saying.

All the generations are here, and they're almost out the door, probably in retirement age. What I'm saying, those are here and they're saying, OK, the tools are here, but they're more oriented to the younger generation, what about me, what am I going to contribute, I'm contributing here, I'm still here, I'm not dead. That's what they're looking at. They want to contribute. But the offer sometimes either doesn't get to them, the information, like Dr. Asch said, is not disseminated to them. But that's basically what I'm referring to.

Senator VOINOVICH. You observe that it's a problem. Do you think that the hiring process is archaic in terms of bringing people in?

Mr. DURAND. I apologize, what was archaic?

Senator VOINOVICH. Well, that it's very slow. Are people frustrated?

Mr. DURAND. Yes.

Senator VOINOVICH. Let's just start off, you have people who want to come to work for the Federal Government, for instance here, they go to the Web site. Do you hear any comments about why it takes so long for approvals to come through——

Mr. DURAND. Yes.

Senator VOINOVICH [continuing]. Or it took so long for me to get my approval after I actually got the offer? Any of that?

Mr. DURAND. I've heard some situations where people have said I got hired, but I haven't seen the paperwork, they're still waiting for the paperwork. It doesn't occur until several weeks or months probably. I've heard that situation, sir.

Senator VOINOVICH. Mr. Blanch, do you want to comment on that?

Mr. BLANCH. Sure. What I've seen is like we just came into this new personnel system, it's called the modern personnel system and we talked a lot about it before it happened, they kicked it around on the smaller AFMC bases, and it was working pretty good, so they wanted to try it at a big AFMC base, Hill Air Force Base. They turned that system on, and it has just caused a lot of problems.

What I'm seeing out there is, and I'm getting this from the SES's on down, the system is really hurting the mission. It's really we need to hire people, we can't hire people.

So what they're doing is they're going out and hiring a contractor to work for us to subsidize it. These contracts are coming on board working about 5 or 6 months, they get up to speed on systems, whatever the systems are they're working on, they're told go apply and they are getting hired as Federal employees.

It's interesting that I was told these contractors are costing $8 more than the hourly rate of pay over the long run, but that's the problem I'm seeing out there at those centers. It is like I said, these are not engineering and scientist jobs. These are actually just blue collar type people. And that's a big issue out there. But interesting enough, these contract employees, while they make a little more money with the contractor, they are jumping to Federal service. They want to work for Uncle Sam.

Senator VOINOVICH. I've talked to Bobby Harnage a little bit about this, but it seems to me, first of all, one of our witnesses, I think it was Mr. Chu, Under Secretary of Defense for Personnel and Readiness, indicated DOD has about 320,000 military people doing jobs that civilians should be doing. And the reason they're doing them is the flexibilities that are connected with the military side are so much broader and better than what you have on the civilian side.

Second of all, I've heard that because of the frustration that many of these people have with the system, many times the temptation is just to try and outsource the jobs because it's too much of a hassle to try and get the civilians on board to do them. So they say, I just can't hire them, so I'm going to look around and outsource the work because it's a lot easier to do that than to try to go through this complex system of trying to bring people on. Do you want to comment on that?

Mr. BLANCH. That's one thing, like I said, we've talked about. We've identified that at AFMC–AFGE Council 214 as a mutual interest. That's something we want to work together on. We agree that that's a problem, that's one of the issues we've set. Yes, we agree there has got to be a better way to get these people on board and up to speed. It's nice to agree with management.

Senator VOINOVICH. Do you believe there are governmental jobs that are being outsourced that should remain? And there is a big question about outsourcing, I didn't get into it with Mr. Dominguez, but the whole issue of outsourcing these jobs, is it——

Mr. BLANCH. It's my concern with outsourcing the jobs, I've heard core for the last 10 years, core workload. Nobody can tell me what core workload is. I have real concerns with national security. You start outsourcing these weapons systems to who knows who or where, they have foreign ownership, they're subject to labor strikes, they're subject to go broke. There are just all kinds of things. AFGE believes that national security, these major weapons systems should be maintained by Federal employees on Federal installations because we just can't afford the risk.

Senator VOINOVICH. In other words, you believe they should be more conservative in their definition of core responsibilities and that in too many instances activities that should be defined as core—is there a definition that is used commonly in the civil service?

Mr. BLANCH. I've never heard a definition of what is core. When we were doing authorizations in places like McClelland, people were calling and asking me what is core. I said I don't know where you draw the line at core workload. To me core workload is workload that national security focuses on.

Senator VOINOVICH. So we need a better definition of core. Would you agree with that?

Mr. BLANCH. Yes, sir.

Senator VOINOVICH. OK. Second of all, if an agency is thinking about outsourcing work, what kind of competition do they have? For example, when I was governor, we gave our unions the opportunity to bid for jobs that we considered to be not core or not governmental in nature, such as security and cleaning. But we did give our State employees an opportunity to bid for them to show that they could do them better.

Are you given an opportunity to compete for this type of work? And if you are, do you think you're getting a fair shake?

Mr. BLANCH. I spoke with Jim Hansen, he was on the Armed Services Committee before he retired, and we talked about Hill Air Force Base where I came out of, and that was his thing. We could do this in, I believe, the Federal sector, Federal DOD workers could go in there and not only compete for the work to do, but compete for outside work. I think we could go compete at Delta Airline for their landing gear corps. But those things are not out there to allow us to do that.

Senator VOINOVICH. So you're telling me you think your guys should be able to compete for work that somebody is doing in the private sector, and that you could bring it back in and do as good a job or better?

Mr. BLANCH. Yes, I think we can do that. As far as for competition, I think it hurts us. We have so many rules and things we have to account for that. It makes it real hard. We have MEO's. The MEO's, you got MEO, it just really hurts you, trying to do what you've already got to do. Once you got it on the table, you mention these MEO things, they say hey, you're good, we're going through a war here, we really got to get into this right now.

So like I said, like Michael said, the stress, the stress, the stress, to put in for that job, we got to, I think we can go in, and if we had the equal opportunity to compete with these jobs, we got a fair shot. We're ready, willing and able, especially AFMC employees.

Senator VOINOVICH. From my experience I've seen it both ways. When I was Mayor of Cleveland that we outsourced our data processing. They did a disastrous job, and we were way behind because they billed us for their cost of developing new systems.

So I had a private sector firm conduct a management study, and they said you ought to take this work back in-house. We did and it was one of the best things that we ever did. So it works both ways. But you think that overall we should have more fairness than we have?

Mr. BLANCH. Yes, I do.

Senator VOINOVICH. Yes. Are any of you familiar with the new NSPS, the new National Security Personnel System that's been promoted by the Defense Department?

Dr. ASCH. Some of it.

Senator VOINOVICH. I would be interested in your comments on it.

Dr. ASCH. I think what I would say, like everything you said, the devil is in the details. I think there are things that work very well in the civil service, and some have worked in the past, but it's not fully effective.

Senator VOINOVICH. It's what?

Dr. ASCH. It's not fully effective or as effective as it could be. Especially when one considers all of the factors that define a successful human resource system. The current system doesn't have all those areas.

For example, there are the issues of whether managers have discretion over resources, are there incentives for performance, are there adequate resources for policies that could make a difference? These are areas where the civil service isn't quite where it should be. But, of course, there are also things that have been done well.

And I think there has been so much attention by such a diverse array of groups. So many commissions and study groups of all sorts have looked at the system and consistently said there are some serious problems with the civil service system.

So looking at the DOD proposal, I think it has the potential to be terrific and provide the flexibility that is needed—the ability to introduce innovative methods, be quicker at hiring, those things. The plan would have those potentials. But that said, when you look at past examples of, for example, the demonstration projects and so forth, one of the conclusions, and I would recommend reading the Naval Research Advisory Committee for the science technology community, the conclusion is that the flexibilities were underutilized, it didn't meet its potential.

And some of the reasons for why that was the case was excessive bureaucracy, the need to get approval from OPM, and OPM having concerns about some of the more radical ideas. They felt that they did not have a system that was supporting the efforts. And so looking at the DOD proposal, it certainly is focused on many of the areas that commissions consistently identify as problem areas. But it needs to recognize that if not implemented well, it could be a real disaster and attention needs to be put to such things as including the employees, making sure they're not going to be hurt by the process, that's critical, not having arrangements with OPM so that not everything has to be approved. On the other hand, OPM needs to have oversight.

Senator VOINOVICH. So you think it goes too far in zapping out OPM?

Dr. ASCH. I don't know that.

Senator VOINOVICH. Are you familiar with it?

Dr. ASCH. In general terms.

Senator VOINOVICH. There is some criticism that they're really trying to get out from OPM.

Dr. ASCH. I think what I'll respond to is that commissions consistently find that the need for approval by OPM has hindered real progress in many initiatives that have the potential to be very positive. And so it's a fine line between giving people the authority to make decisions without having to go to OPM, and yet at the same time recognize that oversight is important, clarity is important, transparency, all those things need to be there too. So I think there is a fine line that needs to be walked there.

Senator VOINOVICH. I've been working on this issue for over 4 years. Last Congress I drafted the Federal Workforce Improvement Act, and included about half of it in the Homeland Security Act. That legislation called for elevating the importance of human resources management.

A question I have is, if you don't have good human resource people already in the Department, then how can you outsource the personnel function?

When I was governor we did outsource it because the Department of State services, frankly, got in the way, so we let them go ahead and do it and they had to follow certain guidelines. So if you take this on, I think you will agree, you really have to do some work in this area to make it work well. A question I asked the other witnesses that were here was about going to a pay banding system with performance pay. I'm going to ask you this question as well. Tell me if you're not familiar with it and I'll understand, but if you've observed that aspect of the Federal workforce, do you think that they're capable of doing pay for performance.

Dr. ASCH. How many of the human resource managers?

Senator VOINOVICH. Yes. One of the concerns that we have is if you go to pay for performance, the people that do the performance evaluations really have to know what they're doing.

Dr. ASCH. That's correct.

Senator VOINOVICH. That is hard work. You have to be trained for the issue. Is the infrastructure in place in order to get that done inside the Federal Government or in the Department of Defense?

Dr. ASCH. I'm more familiar with the Department of Defense civil service, but I think that it is possible to go to that system. It could be very costly. It's very costly in terms of people's time to do a meaningful performance review, especially in the kind of work that people do in the civil service because much of it is difficult to quantify. How do you quantify good ideas? It's very difficult.

So my position is that it is possible to have a pay for performance system. It won't necessarily be in the form of you did a good job this year, I'm going to give you a raise. It could be in the form of—I'm not recommending this, but just to give an example of a system that does work pretty well is the military pay system where promotion is very important? It's essentially pay for performance.

So you can structure pay and compensation in a way that provides incentives for performance that doesn't—maybe where you're reviewing performance not every year, but maybe every few years. I'm not recommending the military system. I'm saying it is possible to design meaningful performance incentives in a governmental situation.

Senator VOINOVICH. Well, I think probably one of the reasons why they want to do it is that they've had some good experience with the uniformed service, and they think we can maybe transfer it over.

Dr. ASCH. But it will take work. My sense is that infrastructure isn't there today. I think that given the lack of incentives right now for performance, basically where the performance incentives exist in the civil service is that the civil service hires really good people who are motivated and want to work in the public service. But it would be nice also to reward them when they do perform well, and that is missing. And so the infrastructure isn't quite there, but maybe it should be. In fact, I think it should be.

Senator VOINOVICH. You would have to get on with that before you just go full blown with it.

Dr. ASCH. I think it's important to have a meaningful plan and then be willing to tweak the plan. I do a lot of research on the active military. When you consider what happened in the move from the draft to the all volunteer force, what a radical change in personnel policy that was. And, yes, it was rocky at first, but with attention to pay raises, introduction of bonuses, revamping——

Senator VOINOVICH. Where is this again?

Dr. ASCH. I'm talking about the active duty military in the uniformed service.

Senator VOINOVICH. OK.

Dr. ASCH. We moved from the draft to an all volunteer force in the 1970's. My point is exactly an example of a radical change in personnel policy that wasn't done successfully at first, it was rocky, but it evolved and it improved, and so I think it's important to have a good plan in place and then have the willingness to come back. And I think that's an important role for Congress is to say, OK, how is this working, and actually in the legislation include data collection, and say we're going to have evaluations. It's interesting going back to the military example, the institutionalized quadrennial review of military compensation that occurs every 4 years. DOD has to review its compensation system. So institutions were put in place in the 1970's so that it wasn't like we're changing

the law and off it goes. Rather we're going to monitor this very carefully and make changes.

Senator VOINOVICH. My complaint, General Lyles, and it's too often, 3 years——

Dr. ASCH. Is not enough.

Senator VOINOVICH. They ought to look at giving him a little more time. Mike, would you want to comment on this?

Mr. BLANCH. I can tell you from the bargaining unit perspective one of the most controversial issues we have out there is performance appraisals. I mean probably half the grievances filed in this command every year are over performance appraisals. We have Chapter 43 in place now. We have a system in place that generates so many complaints.

Senator VOINOVICH. What is it again?

Mr. BLANCH. Chapter 43, the performance appraisal system. That's something they want to get rid of in the new personnel system. They would get rid of that. We have that in place. That is something——

Senator VOINOVICH. I'm sorry, maybe I should know more about it. Is that one of the waivers that one of the agencies received and they're doing it?

Mr. BLANCH. That's what's waived in the Homeland Security Act. DOD is going for the same thing to get rid of that that people go through.

Senator VOINOVICH. In other words, you have some members where they've waived that and you have performance evaluations.

Mr. BLANCH. No. We have that in place now, and we use that. That's a tool that the employees have to make sure they get a fair appraisal, they have to use that system and the collective bargaining agreement and if you take that, that takes away from employees and you give that sole authority to the supervisors to determine if he or she moves up or down or anything else.

Senator VOINOVICH. Well, let me just ask you this, do you think the supervisors that you deal with are trained enough to——

Mr. BLANCH. That's exactly my point. That system now is a good objective system in place, and they have a lot of trouble administrating this system, which I think because it's right there in the same place, and like I said, it's one of the hardest things is the supervisor, and I feel for them because no matter what they do it's not good enough, so it's like——

Senator VOINOVICH. The real question——

Mr. BLANCH. What we have now is they have a real hard time with what we're looking to replace. They're going to have a harder time with it.

Senator VOINOVICH. Does the union have any information about training people in doing performance evaluations?

Mr. BLANCH. No. We think the problem is in our line of business, the Council 214 people—you're a good employee and stuff, and we've talked about this again—it's a partnership council issue, we're working this thing, OK, you're a good mechanic or you're a good whatever you are, and tomorrow you're a supervisor and that's how it happens. You might get a 1 week training course, but supervision is—it's an art, it's not——

Senator VOINOVICH. I'll tell you something, I really would like you to go back and get additional information on this. I'm going to see Bobby Harnage tomorrow, I would really like to get into the issue of how much training people actually receive in the civilian side on doing performance evaluations.

Mr. BLANCH. I think we could probably answer this from this command because we've been working that at the partnership council. I think we can probably get you that from this command real soon.

Senator VOINOVICH. I know that when I spoke to you about a year ago, you said you were working on something like that, but I would really like to know how you're going about getting it done and the time it takes to get it done.

General LYLES. We'll provide that information to you, sir.

Senator VOINOVICH. Great.

Mr. BLANCH. The next biggest issue in AFMC would be disciplinary type actions. We are really concerned with waiving Chapter 75. We have real big concerns there because we are very active with locals and in processing disciplinary actions, and sometimes they're warranted, sometimes they're not.

Senator VOINOVICH. Is the process expedited?

Mr. BLANCH. To my understanding it pretty much goes away. You lose your right.

Senator VOINOVICH. I see, but it goes away.

Mr. BLANCH. Right. We have an expedited procedure in place at AFMC.

Senator VOINOVICH. For hearing grievances.

Mr. BLANCH. We worked our grievance procedure, we've shortened that up substantially. We've stressed to people here for grievances to move them fast, let's get these things out of our way. To freshen everybody's minds, in the old days it would take months and months and months to get through the grievance procedure and we've taken it through collaboration, we know, let's get these problems behind us and let people get back to work because the longer this goes on the worse it gets.

Senator VOINOVICH. Right. Let me ask you another question on the grievance procedure.

Mr. BLANCH. Right.

Senator VOINOVICH. How familiar do you think the supervisors are with the grievance procedure? We regularly hear from people that you have poor performers and can't get rid of them.

Mr. BLANCH. That's just amazing to me. I've been a union steward for a long time, and I can tell you in this command and I get into that——

Senator VOINOVICH. Do what?

Mr. BLANCH [continuing]. With the OPM director. I don't know where this came from because I represent literally hundreds and I know lots and lots of people just like me. If you are not—if you are unacceptable in your performance on any one critical element on your performance plan, you are unacceptable and you are given 90 days to get up to speed or you're out the gate or downgraded seriously. My experience is you're out the gate. I mean, we just don't mess around with that. And I don't know where this old

wives' tale comes from that it takes 5 years or whatever to fire a Federal employee.

Senator VOINOVICH. Yes.

Mr. BLANCH. If you do something wrong at AFMC, you are held accountable, so why do we need this flexibility. You've got it right there. And, if you violate a security regulation, you're out the gate, just like that. It happens. I don't know where these things come from.

Senator VOINOVICH. So your observation is that at the Air Force Materiel Command the people who are in supervisory positions are pretty knowledgeable about how the system works, they follow the procedures, and if somebody is not doing what they're supposed to do, you think they're gone?

Mr. BLANCH. My observation of the Air Force Materiel Command is sometimes they're a little overzealous.

Senator VOINOVICH. They're what?

Mr. BLANCH. They're a little overboard. I would say the person needs some discipline, but you don't need to fire him. But I would say, yes, AFMC is very aggressive.

Senator VOINOVICH. It would be interesting to see the number of grievances, some statistical evidence on the grievances and appeals here versus some other parts of the Defense Department.

Mr. BLANCH. Yes.

Senator VOINOVICH. That's good to hear. I'm not glad that they're running people out, but that they are familiar with the procedure. My experience as mayor was that the city directors often complained that they couldn't get rid of poor performers. So I talked to the person that ran the civil service and the appeals process, and it turned out they didn't follow the rules. They have to follow the rules and if they do what they're supposed to do it would work out. You know what, they went back and trained them, they started following the rules and the frustration ended. But the problem was that most of them didn't know the system and in some instances they were just too lazy to use the system. But you think the system we have in place is fair?

Mr. BLANCH. I think it's a real fair system. I'll be frank with you, I'll have a new supervisor come in, an employee will do something wrong, I'll bring the employee over afterwards and say maybe your boss screwed up procedurally here, but let me tell you something, you got a job to do, so does that supervisor, and he is not going to make the same mistake twice, and, I mean that's the way it goes down. And, yes, all the protections they need are out there, all the tools they need are out there, they use them, and so I just don't understand why they need more.

Senator VOINOVICH. Does anyone else want to make a comment on anything? Mr. Durand, you're where the rubber meets the road. Do you share his observations?

Mr. DURAND. Yes, I do share his observation. There is times, and I haven't been a union treasurer for a long time, so I apologize a little bit of my ignorance on it, I do share his observation. I do realize that there is training to be involved and it all boils down to that, both from the management side and both from the employee sides. They both have to know what the advantages are, what the disadvantages are, what you can do, what you cannot do. And once

they're educated in the system, Dr. Asch was talking about the system you were referring to earlier, you have to learn both, it has to be training, it has to be uniform, it has to be disbursed to the people so that they know what to expect.

Senator VOINOVICH. And do you think that that training, for the most part, is going on so that people are trained for their responsibilities?

Mr. DURAND. Yes. I think the training is occurring.

Senator VOINOVICH. OK.

Dr. ASCH. Can I make one last suggestion? In addition to training, there also has to be an incentive for supervisors to give poor evaluations when necessary and feel that they're going to be backed up when they give poor evaluations. So it's partial—I mean it's the typical argument there are lot of policies on the books that are the right policies, but for some reason they're pointing to the training issue, which is, of course, critical, but another possibility is what's the incentive for them to use it?

I am an economist, there is big literature on how organizations, particularly public organizations because it's not a profit maximizing type of thing, the incentive of a supervisor is to make sure the workers like them, and so they might not do things that a private sector supervisor would do. I'm not saying that's the case here. I'm just saying there is an incentive for supervisors not to give poor evaluations or to follow through with them.

Senator VOINOVICH. Well, it's interesting. David Walker, who is comptroller general, has commented that in their studies on the performance evaluations, most of the time it's always very good.

Dr. ASCH. Everybody is above average, yes.

Senator VOINOVICH. And it's either because it's easier or you don't want to——

Dr. ASCH. I think that's very telling.

Senator VOINOVICH [continuing]. Have the discomfort of saying to somebody what you're doing. Then, of course, there are some that are arguing for a flexible pay band, or broad banding. This is particularly important in the senior executive service where 70 percent of the people earn the same amount of money.

Dr. ASCH. Right. And actually what's to prevent them from going to the top of the pay band. I mean what incentive does a supervisor have to control costs? So the incentives of the managers and the supervisors in this process are pretty critical, especially when you're in a public organization where it's harder to measure productivity. There is no cost bottom line, like you would have in a private sector concern.

Senator VOINOVICH. I'm going to ask you one last question, it's for Mr. Blanch and Mr. Durand, do you know what total quality management is? Do you know what that term means?

Mr. BLANCH. I worked on that a few years ago. Yes, I'm familiar with the term.

Senator VOINOVICH. It's primarily about demonstrating principles of empowering your workers to become involved in decisionmaking and developing self-improvement teams of excellence and continuous improvement. Do you have any experience?

Mr. BLANCH. Yes. I've had a lot of experience in that. In fact, AFMC is working on basically TQM. It's lean logistics.

Senator VOINOVICH. Lean what?

Mr. BLANCH. Lean logistics. It's a new program that's come on board. It started down in Warner Robins Air Force Base. They've gone to the people with all these crazy things, all these things—get these things out of my way, it's just basically a common sense thing, but it's going to the people, the people are like the customer, to know what that customer wants and they know how to get it though now, to get it fast to them. I believe AFMC, we've been kind of practicing that one way or another. Sometimes I don't think we get through with one situation or before we start another one. It was like there was always something going on in this command. Somebody is always looking for a better way to do it.

Senator VOINOVICH. Yes. Do you think overall that your members are involved in decisionmaking and asked how they think they can do their jobs better?

Mr. BLANCH. That depends on the leadership at like General Lyles' leadership. He put the word out, but you get this impermeable layer, you get the word out, you have to go through all the layers of management before it gets down. Sometimes I see it working great, at some bases they'll push back on it, but it's been endorsed at this level.

Senator VOINOVICH. I'd be really interested if you would share with me from your perspective where you think you have some good information because my next project, if we get all these personnel reforms completed in this next couple of years, is to see if we can start moving on total quality management. It's been my experience in the city and in the State Government that when you empower people and you give them the tools and the training and you do the performance evaluation properly you will have a very motivated workforce.

And I think the problem that I've observed is that this whole area of personnel has been neglected for so long in so many places that we must get the fundamentals in operation before we can start going——

Mr. BLANCH. It sounds so easy.

Senator VOINOVICH [continuing]. Where we move on to something else.

Thanks for being here. Thank you, Mr. Durand and Mr. Nauseef. I know you're listening intently. Thank you for your nice words. We enjoy working with you and we understand how important this base is to you.

Mr. NAUSEEF. Thank you, Senator.

Senator VOINOVICH. We want to make sure you have the best workforce you can possibly have here.

Mr. NAUSEEF. Yes, sir.

Senator VOINOVICH. Again, thank you very much.

Dr. ASCH. Thank you.

Senator VOINOVICH. The hearing is adjourned.

[Whereupon, at 3:36 p.m., the Committee was adjourned.]

APPENDIX

Statement of
The Honorable David S. C. Chu
Under Secretary of Defense for Personnel and Readiness

Before the
Subcommittee on Oversight of Government Management, the Federal Workforce
and the District of Columbia
Committee on Governmental Affairs
United States Senate

On
"An Overlooked Asset: The Defense Civilian Workforce"

May 12, 2003

Mr. Chairman and members of the subcommittee.

Thank you for this opportunity to testify on the importance of taking a strategic approach to human capital management. I welcome the opportunity to discuss the challenges facing the Defense civilian workforce. We applaud your decision to hold the first hearing of your subcommittee this year in the field here in Ohio at Wright-Patterson Air Force Base.

One cannot look out into this auditorium and walk around Wright-Patterson Air Force Base without a deep sense of gratitude and appreciation for the hard work and sacrifice of active duty, reserve, defense civilians, and contract personnel who supported our mobilization and operations in Operation Iraqi Freedom. You all have the pledge of this Department that we will do everything possible to provide you the very best tools and support in getting the defense job done.

It is most appropriate that we discuss these matters in a place that celebrates the hundredth anniversary of powered flight this year. For we also seek a new vehicle of personnel management to take our defense civilian workforce into the new century. But, we are ready for much more than short flights, as I hope to demonstrate in my testimony. That new vehicle we call, the National Security Personnel, or NSPS, which I will describe in greater detail later.

You have entitled your hearing, "An Overlooked Asset: The Defense Civilian Workforce." We cannot often enough remind ourselves of the tremendous contribution our civilian workforce makes to the mission of this Department. That application is shared by our Secretary of Defense, Don Rumsfeld. In my experience, I have never seen a more intense commitment by a Secretary of Defense to improving the management of Defense civilians. I think you will see that the remarks I am about to give reflect the great value that this Secretary and his entire staff place on our civilian workforce.

I wish to begin these remarks by recounting the experience of employees in the Department of Defense with the civilian personnel system as it now stands:

- Supervisors at Fort Riley, Kansas, had to send mammography cases to local hospitals for over half a year because they could not successfully recruit a radiologist. The installation had to advertise the position more than once--and then had to assist the only person interested through the

recruitment process. The recruitment started in January and ended in August.

- Tobyhanna Army Depot in Pennsylvania has problems recruiting engineers for communications-electronics systems mission because of inflexibility in starting grade and salary.
- At Walter Reed Army Medical Center in Washington, D.C., recruitment and retention of licensed practical nurses is extremely difficult. Without a better system of recruitment and pay banding they will not be able to hire and keep a quality workforce. This is the medical staff you recently saw on television taking care of our wounded soldiers from Operation Iraqi Freedom.

An Army Program Executive Officer tells us "We've encountered this problem when recruiting professional engineers at the GS-12 level and secretaries at the GS-6 and GS-7 levels. Generally, we have to sit the applicant down and explain exactly what to do in order to give them a chance of appearing on a certificate, because left on their own, they have no idea what to do and either apply incorrectly or give up."

These examples focus primarily not on the failed mechanisms of our personnel management system—much as they need attention—but on the threats to mission accomplishment and morale that arise from the rigidities of our

personnel management system. These examples are but the tip of an iceberg of disappointment with the inflexibility of the current personnel system.

At the same time, the rigidities of the title 5 system of personnel management make it difficult for our civilians to support our military. In the Iraqi theater of operation, only 1,700 of the 11,000 civilians supporting the effort are Defense civilian employees. The rest are contractors. We should have the flexibility to identify, deploy, and sustain more of our civilian workforce in these operations, when necessary. We now have some 320,000 military personnel performing tasks that could be civilianized. The question is whether these jobs go to contract or federal employees. It is difficult to offer these jobs to federal employees when the current title 5 personnel system does not provide the needed flexibility to pay, reward, or assign people appropriately. Our answer is to ask Congress for authority to implement a more flexible system of personnel management, as the National Security Personnel System, grounded in the merit principles of the civil service.

The shortcomings of the title 5 personnel system have been identified by one major review after another: the Office of Personnel Management in its white paper on "A Fresh Start for Federal Pay: The Case for Modernization,"; by The National Commission on the Public Service (popularly known as the Volcker II Commission) in its January, 2003 report, "Urgent Business for America: Revitalizing the Federal Government for the 21st Century,"; and in testimony before your subcommittee, Mr. Chairman, last year, by former Secretary of

Defense James R. Schlessinger and Admiral Harry D. Train (USN, Ret.) representing the U.S. Commission on National Security/21st Century, which was co-chaired by former Senators Gary Hart and Warren Rudman. In his testimony, Dr. Schlessigner stated "it is the Commission's view that fixing personnel problems is a precondition for fixing virtually everything else that needs repair in the institutional edifice of U.S. national security policy." The Commission observes: "highly qualified and talented people are not inclined to wait in uncertainty for a year or more while the government makes up its mind when they can be working at equally rewarding private sector jobs in a week or two. We simply have to make the government act smarter in the process of employing people."

Dr. Schlessinger's testimonies continue: "the aging problem is especially acute. The first of the post-World War II baby-boom generation turns 55 (in the year 2001).... This wave (of retirement eligibles) is exacerbated by the small numbers of employees in their twenties and thirties in most agencies. When agencies such as the Department of Defense and those within the intelligence communities chose to downsize through hiring freezes, they contributed inadvertently to this trend....The Commission believes these problems can be turned into opportunities to adapt the civilian force to meet the new challenges of the 21st century if recruitment hurdles are eliminated, if the hiring process is made faster and easier, and if professional education and retention programs worthy of full funding by Congress are designed."

The Congress has recognized these shortcomings by advancing the cause of flexibility and competitiveness in the Department of Defense civilian human resources management. Congressional action paved the way twenty years ago for the groundbreaking work in pay banding at the Navy's China Lake facility. The Congress also enacted the first federal program of separation buyouts that transformed a reduction in force into voluntary departures, authorized critical personnel demonstration projects in the defense acquisition workforce and in defense laboratories and testing centers, provided flexibility in paying for degrees, and created scholarships to attract, advance, and keep those with information assurance skills. DoD has been engaged in civilian personnel reforms through the administrations of the last three Presidents. Our proposal for a National Security Personnel System is in line with the changes effected—largely by the Congress—over the last 12 years:

- In 1990, we decided that we needed to streamline the civilian personnel processes and regulations in the Department. That process resulted in the personnel efficiencies study, consolidating a major portion of the civilian personnel work being done above the operating level.
- The National Defense Authorization Act of (NDAA) of 1990 established the defense acquisition workforce.
- The 1992 NDAA provided authority to pay a voluntary separation incentive pay for up to $25,000 to encourage workers to leave the workforce instead of going through the reduction in force process.
- In December, 1992, the Department issued Defense Management Report Decision 974, consolidating the operations of the personnel operations and services identified.
- The 1995 NDAA provided authority for laboratory demonstration projects.
- The 1996 NDAA provided authority for the acquisition demonstration project.

- The 1996 NDAA removed the intelligence personnel program from title 5, United States Code.
- The 1999 NDAA gave the Defense Advanced Research Projects Agency (DARPA) unique hiring, pay and bonus authorities.
- The 2001 NDAA expanded our Voluntary Separation Incentive Pay authority to include workforce restructuring.

We particularly want to recognize your critical and sustained work, Mr. Chairman, in securing a number of these flexibilities for the Department, particularly the workforce restructuring incentive authority. We used 81.4 percent of our allocations in fiscal year 2001 and 99.4 percent of our allocations in fiscal year 2002.

Innovations and experimentations over many years have demonstrated that a more flexible and collaborative system of human resources management, providing greater opportunity for employees and more responsibility for managers, can lead to greater productivity and improved morale that are critical to mission support.

In a related action, the Congress recognized the need for greater flexibility in the management of national security personnel in the enactment of the new Department of Homeland Security, which includes your personnel reform provisions, Mr. Chairman. Your words on Senate passage of the legislation are just as meaningful today. You stated "With better tools for recruiting, retaining and training people, we can make sure that the best and brightest enter government service to fight terrorism, protect our air and water, monitor the safety of our food

and drug supply, and do the many other necessary but unsung jobs we all depend on every day."

Significant changes in the challenges we face in the national security arena, the characteristics of our workforce, and the competitiveness of the marketplace for talent, demand a much more strategic approach to managing our valuable people. We are pursuing two initiatives for a more flexible civilian personnel management system for the Department of Defense, grounded in merit principles, and designed to ensure the fair treatment of our employees. The first is our Best Practices Initiative. This is the detailed blueprint for a new system of hiring, assigning, rewarding, and replacing employees. We can apply this blueprint to about 150,000 of Defense civilians who are covered by demonstration project and alternative personnel system authority.

We chartered the Best Practices Initiative more than a year ago. Its purpose was to boil down the best human resources management concepts and practices from those in and outside of the Department for application across the Department. We focused especially on the lessons learned from the demonstration projects authorized by the Congress.

The work of the Best Practices Initiative was accomplished through both working groups and an executive panel that represent both headquarters and field personnel from the acquisition, laboratory, and human resources communities. It was not an easy process as any of the participants can testify. We have discussed

the work of this Initiative with labor as well. On April 2, 2003, we published the draft plan for Best Practices in the Federal Register.

The proof that the personnel demonstration projects have improved the workplace can be found in the Office of Personnel Management's assessment of five years of laboratory demonstration projects:

- "As a result of pay banding, the laboratories can offer higher (more competitive) starting salaries than is possible under the General Schedule (GS) system."
- "(M)anagers…who had used (categorical rating) felt that it had improved hiring timeliness…and...provided a larger pool of qualified candidates….There was no significant difference in the percentage of veterans hired under categorical rating and the "rule of three.""
- "(R)egression analyses show that performance is becoming an increasingly important predictor of pay over time in the demonstration labs…. (performance and contribution) has become the strongest predictor of pay…(and)…tenure is no longer significant."

For the balance of the workforce, and in order to provide additional critical flexibilities, particularly in the area of labor bargaining, we need legislation to expand the Best Practices flexibilities to the rest of the Defense civilian workforce.

As a matter of ensuring our future national security, we need the authority to extend these best practices to the entire Department of Defense, and to add to them based on the lessons we have learned. Mission shifts and organizational changes demand increased management flexibility. Recruiting at job fairs requires expedited hiring authority. Without these new authorities, we will not be able to hire the replacement generation of federal employees as the current generation retires. We will not be able to reward the best performers properly and thus will not able to attract the strongest performers in the first place.

Our proposed National Security Personnel System provides broad legislative authority for establishing a new civilian personnel management system that is like that for the Department of Homeland Security, tailored to DoD. DoD is not abandoning the civil service. The legislation simply adds a new chapter – 99 – to title 5. The proposal preserves the time-honored and time-tested civil service principles of competitive selection; fair and equitable treatment of employees; equal pay for work of equal value; effective training and education that results in better individual and organizational performance; and protection against arbitrary and capricious actions and against reprisals for whistleblowing. We continue to value and respect veterans' preference. Those protections are explicitly recognized in the legislation. And we continue to respect the role of labor bargaining. We will make sure that NSPS respects current funding limits.

The proposal for a National Security Personnel System is a step toward the

managerial flexibility envisioned in the President's Managerial Flexibility Act. NSPS is a pillar in the Secretary of Defense's efforts to transform the way we fight and manage. The Secretary has rightly stated, "as we prepare for the future, we must think differently and develop the kinds of forces and capabilities that can adapt quickly to new challenges and to unexpected circumstances. We must transform not only our armed forces, but also the Department that serves them by encouraging a culture of creativity and prudent risk-taking. We must promote an entrepreneurial approach to developing military capabilities, one that encourages people to be proactive, not reactive, and anticipates threats before they emerge."

The House Government Reform Committee passed their version of our proposal last week. We are truly grateful for Congressman Tom Davis' support and leadership on this initiative. We look to you, Mr. Chairman to help us as the legislative proposal works its way through both houses of Congress.

We appreciate the Chairman's and the subcommittee's interest in improving the management of our national security workforce and look forward to working with you in this legislative season. Thank you again for the opportunity to testify. This concludes my remarks. I will be glad to answer your questions.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Senate Committee on Governmental Affairs

For Release on Delivery
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HUMAN CAPITAL

DOD's Civilian Personnel Strategic Management and the Proposed National Security Personnel System

Statement of David M. Walker,
Comptroller General of the United States

GAO-03-493T

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Accountability·Integrity·Reliability

Highlights

Highlights of GAO-03-493T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Senate Committee on Governmental Affairs

Why GAO Did This Study

People are at the heart of an organization's ability to perform its mission. Yet, a key challenge for the Department of Defense (DOD), as for many federal agencies, is to strategically manage its human capital. With about 700,000 civilian employees on its payroll, DOD is the second largest federal employer of civilians in the nation. Although downsized 38 percent between fiscal years 1989 and 2002, this workforce has taken on greater roles as a result of DOD's restructuring and transformation. DOD's proposed National Security Personnel System (NSPS) would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and other human capital areas. The NSPS would enable DOD to develop and implement a consistent DOD-wide civilian personnel system. Given the massive size of DOD, the proposal has important precedent-setting implications for federal human capital management and OPM.

This testimony provides GAO's preliminary observations on aspects of DOD's proposal to make changes to its civilian personnel system and discusses the implications of such changes for governmentwide human capital reform. Past reports have contained GAO's views on what remains to be done to bring about lasting solutions for DOD to strategically manage its human capital. DOD has not always concurred with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-493T
To view the full testimony, including the scope and methodology, click on the link above.
For more information, contact Derek B. Stewart at (202) 512-5140 or StewartD@gao.gov.

May 2003

HUMAN CAPITAL

DOD'S CIVILIAN PERSONNEL STRATEGIC MANAGEMENT AND THE PROPOSED NATIONAL SECURITY PERSONNEL SYSTEM

What GAO Found

DOD's lack of attention to force shaping during its downsizing in the early 1990s has resulted in a workforce that is not balanced by age or experience and that puts at risk the orderly transfer of institutional knowledge. Human capital challenges are severe in certain areas. For example, DOD has downsized its acquisition workforce by almost half. More than 50 percent of the workforce will be eligible to retire by 2005. In addition, DOD faces major succession planning challenges at various levels within the department. Also, since 1987, the industrial workforce, such as depot maintenance, has been reduced by about 56 percent, with many of the remaining employees nearing retirement, calling into question the longer-term viability of the workforce. DOD is one of the agencies that has begun to address human capital challenges through strategic human capital planning. For example, in April 2002, DOD published a department wide strategic plan for civilians. Although a positive step toward fostering a more strategic approach toward human capital management, the plan is not fully aligned with the overall mission of the department or results oriented. In addition, it was not integrated with the military and contractor personnel planning.

We strongly support the concept of modernizing federal human capital policies within DOD and the federal government at large. Providing reasonable flexibility to management in this critical area is appropriate provided adequate safeguards are in place to prevent abuse. We believe that Congress should consider both governmentwide and selected agency, including DOD, changes to address the pressing human capital issues confronting the federal government. In this regard, many of the basic principles underlying DOD's civilian human capital proposals have merit and deserve serious consideration. At the same time, many are not unique to DOD and deserve broader consideration.

Agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). Several of the proposed DOD reforms meet this test. At the same time, we believe that Congress should consider incorporating additional safeguards in connection with several of DOD's proposed reforms. In our view, it would be preferable to employ a government-wide approach to address certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the Office of Personnel Management (OPM), in particular. We believe that several of the reforms that DOD is proposing fall into this category (e.g., broad-banding, pay for performance, re-employment and pension offset waivers). In these situations, it may be prudent and preferable for the Congress to provide such authorities on a governmentwide basis and in a manner that assures that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency.

However, in all cases whether from a governmentwide authority or agency specific legislation, in our view, such additional authorities should be implemented (or operationalized) only when an agency has the institutional infrastructure in place to make effective use of the new authorities. Based on our experience, while the DOD leadership has the intent and the ability to implement the needed infrastructure, it is not consistently in place within the vast majority of DOD at the present time.

Chairman Voinovich, Senator Durbin, and Members of the Subcommittee,

It is a pleasure to appear before the Subcommittee to discuss the status and future of Department of Defense's (DOD) civilian workforce—an integral part of DOD's "total force". DOD uses the term total force to refer to the different categories of workers that it uses to accomplish its mission. The total force includes military personnel, both active and reserve, federal civilian personnel, and private-sector contract personnel. Collectively, these people are at the heart of the department's ability to perform its mission.

DOD is in the midst of a major transformation and it has undertaken a number of related initiatives to transform its forces and fundamentally improve its business operations. As part of DOD's transformation process, the Secretary of Defense and senior civilian and military leaders have committed to adopt a capabilities-based approach to acquisition planning and to improve the linkage between overall strategy and individual investments. At the same time, DOD has embarked on a series of efforts to achieve strategic savings and improve its business processes, including strengthened financial management, support infrastructure reforms to include base closures, information technology modernization, logistics reengineering, and more strategic human capital management. Clearly, Secretary Rumsfeld and top DOD leadership is committed to transforming the very way that DOD conducts business. In that regard, I am pleased to serve as an observer to the Defense Business Practice Implementation Board. Notwithstanding these ongoing efforts, GAO has reported a range of DOD challenges for many years. Importantly, DOD also is covered by 9 of the 25 areas on our January 2003 high-risk list, including the area of strategic human capital management.

DOD's proposed National Security Personnel systems (NSPS) recognizes that, as GAO has stated and the experiences of leading public sector organizations here and abroad have found, strategic human capital management must be the centerpiece of any serious government transformation effort. The NSPS would provide for wide-ranging changes in DOD's civilian personnel pay and performance management, collective bargaining, rightsizing, and a variety of other human capital areas. The NSPS would enable DOD to develop and implement a consistent, DOD-wide civilian personnel system bringing together the many disparate systems that exist today.[1]

We strongly support the concept of modernizing federal human capital policies both within DOD and for the federal government at-large. Providing reasonable flexibility to management in this critical area is appropriate. At the same time, incorporating adequate safeguards in order to maximize the chance for success and prevent abuse is essential. The federal personnel system is clearly broken in

[1]DOD officials have said that the Department's current thinking is that NSPS will be based on practices were outlined in an April 2, 2003, *Federal Register 68 Fed. Reg.* 16,119-16,142 (2003) notice asking for comment on DOD's plan to integrate all of its current science and technology reinvention laboratory demonstration projects under a single human capital framework consistent with the best practices DOD identified.

critical respects—designed for a time and workforce of an earlier era and not able to meet the needs and challenges of our rapidly changing and knowledge-based environment. In this regard, many of the basic principles underlying DOD's civilian human capital proposals have merit and deserve serious consideration. At the same time, many are not unique to DOD and deserve broader consideration.

We believe that Congress should consider both governmentwide and selected agency, including DOD, changes to address the pressing human capital issues confronting the federal government. Agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). In addition, targeted reforms should be considered in situations where additional testing or piloting is needed for fundamental governmentwide reform. Several of the proposed DOD reforms meet this test. At the same time, we believe that Congress should consider incorporating additional safeguards in connection with several of DOD's proposed reforms.

In our view, it would be preferable to employ a government-wide approach to address certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the Office of Personnel Management (OPM), in particular. We believe that several of the reforms that DOD is proposing fall into this category (e.g., broad-banding, pay for performance, re-employment and pension offset waivers). In these situations, it may be prudent and preferable for the Congress to provide such authorities on a governmentwide basis and in a manner that assures that appropriate performance management systems and safeguards are in place before the new authorities are implemented by the respective agency. This approach is not intended to delay action on DOD's or any other individual agency's efforts, but rather to accelerate needed human capital reform throughout the federal government in a manner that assures reasonable consistency on key principles within the overall civilian workforce. This approach also would provide agencies with reasonable flexibility while incorporating key safeguards to help maximize the chances of success and minimize the chances of abuse and failure. Finally, this approach also would help to maintain a level playing field among federal agencies in competing for talent.

However, in all cases whether from a governmentwide authority or agency specific legislation, in our view, such additional authorities should be implemented (or operationalized) only when an agency has the institutional infrastructure in place to make effective use of the new authorities. This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs with its program goals and mission, and desired outcomes; the capabilities to effectively develop and implement a new human capital system; and importantly, the existence of a modern, effective, and credible performance management system that includes adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure the fair, effective, and non-discriminatory implementation of the system. Thus, for

example, while it is imperative that we take steps to better link employee pay to performance across the federal government, how it is done, when it is done, and the basis on which it is done, can make all the difference in whether or not such efforts are successful. Based on our experience, while the DOD leadership has the intent and the ability to implement the needed infrastructure, it is not in place within a vast majority of DOD at the present time. In that regard, last week the House Government Reform Committee marked-up H.R. 1836, which incorporates the DOD civilian personnel reforms. I was pleased to see that safeguards, along the lines we have been suggesting, were included in the mark-up. I will now discuss each of these three elements of an institutional infrastructure in more detail.

Strategic Human Capital Planning and Management at DOD

With almost 700,000 civilian employees on its payroll, DOD is the second largest federal employer of civilians in the nation, after the Postal Service. Defense civilian personnel, among other things, develop policy, provide intelligence, manage finances, and acquire and maintain weapon systems. Given the current global war on terrorism, the role of DOD's civilian workforce is expanding, such as participation in combat support functions that free military personnel to focus on warfighting duties for which they are uniquely qualified. Career civilians possess "institutional memory," which is particularly important in DOD because of the frequent rotation of military personnel and the short tenure of the average political appointee. However, since the end of the Cold War, the civilian workforce has undergone substantial change, due primarily to downsizing, base realignments and closures, competitive sourcing initiatives, and DOD's changing missions. For example, between fiscal years 1989 and 2002, DOD reduced its civilian workforce by about 38 percent, with an additional reduction of about 55,000 personnel proposed through fiscal year 2007.

Without a strategic view, DOD's approach to civilian downsizing in the early 1990s relied primarily on voluntary turnover and retirements and varying freezes on hiring authority. DOD also used existing authority for early retirements to encourage voluntary separations at activities facing major reductions in force. The fiscal year 1993 National Defense Authorization Act authorized a number of transition assistance programs for civilian employees, including financial separation incentives, or "buyouts," to induce the voluntary separation of civilian employees and reduce authorized positions. DOD has credited the use of separation incentives, early retirement authority, and various job placement opportunities as ways to avoid nearly 200,000 involuntary demotions and separations.

While the tools available to DOD to manage its civilian downsizing helped mitigate the adverse effects of force reductions, DOD's approach to the reductions was not oriented toward shaping the makeup of the workforce. During our work on the early phases of the DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a

balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base. Historically, DOD has not focused on human capital planning for civilians to the extent that it has for its military force. In 2000, the Defense Science Board reported that senior civilian and military leaders have devoted "far less" attention to civilian personnel challenges than the challenges of maintaining an effective military force.

The consequences of the lack of attention to force shaping can be seen in the current age distribution of the civilian workforce in comparison to the distribution at the start of the drawdown. Today's workforce is older and more experienced; and not surprisingly, 58 percent of the workforce will be eligible for early or regular retirement in the next 3 years.

The net effect is a workforce that is not balanced by age or experience and that puts at risk the orderly transfer of institutional knowledge. The continuing increase in the number of retirement-age employees, as well as the loss of experienced personnel which can result from ongoing emphasis on public-private sector competition involving commercial activities under OMB Circular A-76, could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements. With senior management attention, strategic leadership and results-oriented performance management, however, DOD can rebuild its civilian workforce to meet future requirements for specific skills and experience. The work of the congressionally mandated Commercial Activities Panel, which I chaired, noted the importance of government human capital practices in sourcing decisions. In fact, one of the ten principles adapted by the Panel as guide for future sourcing decisions, stipulates that sourcing and related policies should be consistent with human capital practices designed to attract, motivate, retain, and reward a high-performing workforce.[2]

This principle underscores the importance of considering human capital concerns in connection with the sourcing process. While it does not mean that agencies should refrain from outsourcing due to its impact on the affected employees, it does mean that the federal government's sourcing policies and practices should consider the potential impact on the government's ability to attract, motivate, retain, and reward a high-performing workforce both now and in the future. Regardless of the result of specific sourcing decisions, it is important for the workforce to know and believe that they will be viewed and treated as valuable assets.

[2] The Panel, mandated by section 832 of the Defense Authorization Act for fiscal year 2001, required the Comptroller General to convene a panel of experts to study the process used by the federal government to make sourcing decisions. After a yearlong study, the Panel published its report on April 30, 2002. See Commercial Activities Panel, *Improving the Sourcing Decisions of the Government: Final Report*, (Washington, D.C.: April 30, 2002). The report can be found on GAO's web site at www.gao.gov under the Commercial Activities Panel heading.

The Acquisition and Logistics Workforces

These human capital challenges are even more severe in certain areas, such as acquisition and logistics. The acquisition area is a part of the workforce that the United States has relied upon to maintain the technological superiority that plays an essential role in the national security strategy. According to DOD's Acquisition 2005 task force report, the rate of reduction in the civilian acquisition workforce has substantially exceeded that of the rest of the DOD workforce. In the past decade, DOD has downsized its acquisition workforce by almost half. More than 50 percent of the remaining acquisition workforce will be eligible to retire by 2005; and in some occupations, DOD projects that half of the current employees will have retired by 2006.

The task force report made a series of recommendations to DOD in October 2000. In April 2002, we reported on DOD's plans to implement these recommendations. We noted that DOD has made progress in laying a foundation for reshaping its acquisition workforce. Taking a strategic approach to human capital can be challenging itself. First, it requires a shift in how the human resources function is perceived, from strictly a support function to one integral to an agency's mission. Second, agencies may also find that they need some of the basic tools and information to develop strategic plans, such as accurate and complete information on workforce characteristics. Consequently, DOD views implementation of the recommendations as long-term efforts with specific outcomes taking years to achieve.

As a result of downsizing initiatives, the increased use of the private sector for logistics support activities, and other factors, the civilian workforce in DOD's industrial activities–maintenance depots, arsenals, and ammunition manufacturing plants–was reduced by about 56 percent between 1987 and 2002. The result is that many in this workforce—which comprises about twelve percent of DOD's total civilian workforce—are currently eligible to retire and about 43 percent will be eligible to retire by 2009. In recent years, we have specifically identified deficiencies in DOD's planning for depot maintenance operations. In October 2001, we reported that DOD had no overall plan that tied investments in depot maintenance facilities and equipment with future workloads and, in turn, with human capital needs.[3] We recommended, among other things, that DOD develop a depot strategic plan that would delineate future workloads to be accomplished in each of the services' maintenance depots. We recently reported that while DOD has initiated some action toward developing a depot strategic plan, the department still has no depot strategic plan. We also reported that while DOD has initiated some action toward developing a depot strategic plan, the

[3] U.S. General Accounting Office, *Defense Logistics: Actions Needed to Overcome Capability Gaps in the Public Deport System,* GAO-02-105 (Washington, D.C.: Oct. 12, 2001).

department still has no depot strategic plan and the future of these activities is uncertain.[4]

Without the benefit of a departmentwide strategic depot plan, the services' efforts to develop comprehensive depot strategic plans vary. For example, the Army, Air Force and Marine Corps have developed depot plans, but the Army plan has been suspended, the Air Force plan does not address one depot nor identify specific new work, and the Marine Corps plan has not been approved and has no approval schedule. While the Navy has not developed a strategic depot plan, two of the Navy components—the shipyard and aviation communities—have begun strategic planning efforts.

In addition, we reported that the services have also not developed and implemented strategic workforce plans that will position the civilian industrial workforce to meet future requirements. Except for the Air Force, the services industrial activities' workforce plans are mostly short-term rather than strategic. The plans are also lacking in other areas that OPM guidance and high-performing organizations identify as key to successful workforce planning. Specifically, they (1) usually do not assess the competencies needed for current and future workforces; (2) do not develop comprehensive retention plans that identify employees critical to accomplishment of organizational goals, develop an infrastructure to assist workers in becoming long-term assets of the organization, or provide meaningful incentives to retain valued employees; and (3) sometimes do not develop performance measure for evaluating workforce plans to identify corrective actions needed to improve planning efforts.

In our April 2003 report we made recommendations to strengthen strategic workforce planning for DOD industrial activities. DOD concurred with most of our recommendations and highlighted the importance the department places in human capital management. In non-concurring with two of our recommendations, DOD officials said that DOD's new NSPS will provide all the flexibilities and authorities needed to maintain and enhance human resources competencies, capabilities, and performance across the department. We believe it is premature to assume that all its provisions will be approved and that the new system will address our concerns.

DOD's Development of Strategic Human Capital Plans

Over the past few years, DOD has recognized the need for strategic human capital management. Most recently the Quadrennial Defense Review Report (2001) called upon DOD to modernize and transform its civilian force so that it is as equally agile, flexible, and innovative as a transformed U.S. military force. In April 2002, DOD published a department wide strategic plan, the *Civilian Human*

[4] U.S. General Accounting Office, *DOD Civilian Personnel: Improved Strategic Planning Needed to Help Ensure Viability of DOD's Civilian Industrial Workforce,* GAO-03-472 (Washington, D.C.: Apr. 30, 2003).

Resources Strategic Plan, to set forth its vision to "design, develop, and implement human resource policies, strategies, systems, and tools to ensure a mission-ready civilian workforce that is motivated to excel." As we reported in March 2003, top-level leaders in the Air Force, the Marine Corps, the Defense Contract Management Agency, and the Defense Finance and Accounting Service have initiated planning efforts and are working in partnership with their civilian human capital professionals to develop and implement civilian strategic plans; such leadership, however, was increasing in the Army and not as evident in the Navy.[5]

DOD's issuance of its departmentwide civilian human capital plan begins to lay a foundation for strategically addressing civilian human capital issues; however, DOD has not provided guidance on aligning the component-level plans with the department-level plan to obtain a coordinated focus to carry out the Secretary of Defense's transformation initiatives in an effective manner. High-level leadership attention is critical to developing and directing reforms because, without the overarching perspective of such leaders as Chief Operating Officers and the Chief Human Capital Officers, reforms may not be sufficiently focused on mission accomplishment, and without their support, reforms may not receive the resources needed for successful implementation. We have previously reported that the concept of a Chief Operating Officer (COO) could offer the leadership to help elevate attention on key management issues and transformational change, integrate these various efforts, and institutionalize accountability for addressing management issues and leading transformational change both within and between administrations[6]. In our view, DOD is a prime candidate to adopt this COO concept. In addition, if Congress provides DOD with many of the flexibilities it is seeking under the NSPS, the basis for adding a COO position at DOD would be even stronger.

The human capital strategic plans we reviewed in our March report, for the most part, lacked key elements found in fully developed plans. Most of the civilian human capital goals, objectives, and initiatives were not explicitly aligned with the overarching missions of the organizations. Consequently, DOD and defense components cannot be sure that strategic goals are properly focused on mission achievement. Also, none of the plans contained results-oriented performance measures to assess the impact of their civilian human capital initiatives (i.e., programs, policies, and processes). Thus, DOD and the components cannot gauge the extent to which their human capital initiatives contribute to achieving their organizations' missions. Finally, the plans did not contain data on the skills and competencies needed to successfully accomplish future missions; therefore, DOD

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[5] U.S. General Accounting Office, *DOD Personnel: DOD Actions Needed to Strengthen Civilian Human Capital Strategic Planning and Integration with Military Personnel and Sourcing Decisions,* GAO-03-475, (Washington, D.C.: Mar. 28, 2003).

[6] U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy To Address Federal Governance Challenges,* GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

and the components risk not being able to put the right people, in the right place, and at the right time, which can result in diminished accomplishment of the overall defense mission.

Moreover, the civilian plans we reviewed did not address how the civilian workforce will be integrated with their military counterparts or with sourcing initiatives. DOD's three human capital strategic plans—two military and one civilian—were prepared separately and were not integrated to form a seamless and comprehensive strategy and did not address how DOD plans to link its human capital initiatives with its sourcing plans, such as efforts to outsource non-core responsibilities. The components' civilian plans acknowledge a need to integrate planning for civilian and military personnel—taking into consideration contractors—but have not yet done so. Without an integrated strategy, DOD may not effectively and efficiently allocate its scarce resources for optimal readiness.

In our March report we recommended, among other things, that DOD improve future revisions and updates to the departmentwide strategic human capital plan by more explicitly aligning its elements with DOD's overarching mission, including performance measures, and focusing on future workforce needs. DOD only partially concurred with our recommendation, and, as explanation stated that the recommendation did not recognize the involvement in and impact of DOD's Quadrennial Defense Review on the development of the departmentwide plan. We also recommended that DOD assign a high priority to and set a target date for developing an integrated departmentwide plan for both military and civilian workforces that takes into account contractor roles and sourcing initiatives. DOD did not concur with this recommendation and stated that it presently has both a military and civilian plan; the use of contractors is just another tool to accomplish the mission, not a separate workforce, with separate needs, to manage. Finally, we wish to note that the Under Secretary of Defense for Personnel and Readiness made a point that DOD is in the early stages of its strategic planning efforts.[7] We recognize this and believe that our recommendations represent opportunities that exist to strengthen its developing planning efforts.

The Capabilities Needed to Effectively Develop and Implement Human Capital Flexibilities

Our work has identified a set of key practices that appear to be central to the effective use of human capital authorities. These practices, which are shown in figure 1, center on effective planning and targeted investments, involvement and training, and accountability and cultural change.[8]

[7] U.S. General Accounting Office, *DOD Personnel: DOD Comments on GAO's Report on DOD's Civilian Human Capital Strategic Planning*, GAO-03-690R (Washington, D.C.: Apr. 18, 2003).
[8] U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

Figure 1: Key Practices for Effective Use of Human Capital Flexibilities

Plan strategically and make targeted investments	• Obtain agency leadership commitment • Determine agency workforce needs using fact-based analysis • Develop strategies that employ appropriate flexibilities to meet workforce needs • Make appropriate funding available
Ensure stakeholder input in developing policies and procedures	• Engage the human capital office • Engage agency managers and supervisors • Involve employees and unions • Use input to establish clear, documented, and transparent policies and procedures
Educate managers and employees on the availability and use of flexibilities	• Train human capital staff • Educate agency managers and supervisors on existence and use of flexibilities • Inform employees of procedures and rights
Streamline and improve administrative processes	• Ascertain the source of existing requirements • Reevaluate administrative approval processes for greater efficiency • Replicate proven successes of others
Build transparency and accountability into the system	• Delegate authority to use flexibilities to appropriate levels within the agency • Hold managers and supervisors directly accountable • Apply policies and procedures consistently
Change the organizational culture	• Ensure involvement of senior human capital managers in key decision-making processes • Encourage greater acceptance of prudent risk taking and organizational change • Recognize differences in individual job performance and competencies

Source: GAO.

Congress should consider the extent to which an agency is capable of employing these practices before additional human capital flexibilities are implemented. In the context of NSPS, Congress should consider whether and to what extent DOD has used and is using these practices as it develops and implements its new civilian personnel system.

Adequate Safeguards, Reasonable Transparency, and Appropriate Accountability

In the absence of the right institutional infrastructure, granting additional human capital authorities will provide little advantage and could actually end up doing damage if the new flexibilities are not implemented properly. Our work looking at DOD's strategic human capital planning efforts and our work looking across the federal government at the use of human capital flexibilities and related human capital efforts underscores the critical steps that DOD needs to take to properly develop and effectively implement any new personnel authorities. As I mentioned at the outset, should Congress decide to provide DOD additional authorities, a set of adequate safeguards, including reasonable transparency and appropriate accountability mechanisms to ensure the fair and merit-based

implementation and application of the new authorities is important to maximize the chances of success and minimize the chances of abuse. Similarly, Congress should consider ensuring that safeguards are in place for any additional governmentwide human capital authorities that are provided to agencies.

The following provides some safeguards Congress should consider in regards to the proposed NSPS. First, I offer some suggestions for safeguards for the overall design for the NSPS. Second, I suggest some safeguards for specific elements of the NSPS. In that regard, last week the House Government Reform Committee marked-up H.R. 1836, which incorporates the DOD civilian personnel reforms. I was pleased to see that safeguards, along the lines suggested below, were included in the mark-up.

Safeguards for the DOD's Overall Human Capital Program

Authority To Act Independently From The Director Of The Office Of Personnel Management

The DOD proposal would allow the Secretary of Defense to jointly prescribe regulations with the Director of OPM to establish a flexible and contemporary human resources management system for DOD—NSPS. The joint issuance of regulations is similar to that set forth in the Homeland Security Act of 2002[9] between the Secretary of Homeland Security and the Director of OPM for the development of the DHS human resources management system. However, unlike the legislation creating Department of Homeland Security (DHS), the Defense Transformation for the 21st Century Act would allow the Secretary of Defense to waive the requirement for joint issuance of regulations if, in his or her judgment, it is "essential to the national security"—which is not defined in the act. Congress may want to consider eliminating this provision to make the NSPS consistent with the Homeland Security Act of 2002. If Congress decides to move forward with the provision, it should consider the following safeguards:

Potential Safeguards:

- Provide statutory criteria to define what is "essential to the national security", or stipulate that such criteria should be developed in consultation with the Director, Office of Management and Budget.
- Require that the criteria consider Federal Labor Relation Authority (FLRA) administrative case law decisions. FLRA has ruled on several cases involving the application of 5 U.S.C. 7112 where the FLRA determines the appropriate units for labor organization representation.
- Require that the Director of OMB or the President certify the determination by the Secretary of Defense that an action is "essential to the national security",

[9]Pub. L. No. 107-296, Nov. 25, 2002.

rather than giving the sole authority to the Secretary. This would provide for an institutionally independent "tie-breaker" approach to such issues.

Strategic Human Capital Planning

Under the DOD proposal, key governmentwide provisions of the Homeland Security Act concerning strategic human capital management and planning, such as the creation of a Chief Human Capital Officer (CHCO) Act can be waived. Congress should consider requiring that key governmentwide provisions of the Homeland Security Act concerning strategic human capital management and planning be nonwaiveable by DOD. This would include such provisions as:

- Appointment of a DOD Chief Human Capital Officer.
- Requirement that DOD's human capital planning be included in Government Performance and Results Act performance plans and programs performance reports.
- Adherence to strategic human capital management standards set by OPM. (The Homeland Security Act requires OPM to design a set of systems to assess the management of human capital by federal agencies, including appropriate metrics.)

Employee Involvement

The proposed Defense Transformation for the 21st Century Act includes provisions intended to ensure collaboration with employee representatives in the planning, development, and implementation of a human resources management system. Such provisions include allowing employees to comment on, and review the proposed human capital system and provides for a mediation procedure if agreement cannot be reached. The provisions are generally consistent with those required of DHS. In addition, the legislation provides that the Secretary may at his or her sole and exclusive discretion engage in national level bargaining.

Potential Safeguards:

- Explicitly state the intent of Congress on the importance of allowing DOD employees to participate in a meaningful way in the creation of any human resources management system affecting them. This was done for DHS in the Homeland Security Act.
- Require DOD to submit disagreements with the union over the design of the human resources system after 30 days to an independent body for some level of assistance in resolution rather than provide that the Secretary may implement and inform Congress. As the bill is now written, if an agreement has not been reached after 30 days, and the Secretary determines that further consultation with employee representatives will not produce agreement, the Secretary may implement any or all parts of the proposal, including any modifications made in response to the recommendations. The Secretary is to

notify Congress of the implementation of any part of the proposal, any changes made to the proposal as a result of recommendations from the employee representatives, and the reasons why implementation is appropriate.
- Provide guidance as to appropriate issues to be resolved at the national and local levels.

Employee Appeals Procedures

The proposal states that the appeals procedures shall ensure due process protections and expeditious handling, to the maximum extent possible. In this regard, the proposal provides that presently applicable appeals procedures should only be modified insofar as such modifications are designed to further the fair, efficient, and expeditious resolution of matters involving DOD employees. This provision is substantially the same as a similar provision in the Homeland Security Act of 2002 allowing DHS to prescribe regulations for employee appeals related to their employment. Similar to the requirement for the Secretary of DHS, the Secretary of Defense would likewise be required to consult with MSPB prior to issuing regulations. However, neither the Homeland Security Act nor the proposed legislation expressly requires that employee appeals be heard and decided by the MSPB. There is also no express provision for judicial review of decisions regarding employee appeals decisions.

Potential safeguards:
- Require that DOD establish an independent appeals authority if it decides not to use MSPB.
- Require that the qualifications, experience, and terms of appointment of the members be specified in the statute or established jointly in consultation with MSPB.
- Expressly state that decisions of any DOD appeals board would be subject to judicial review.

Evaluation and Reporting

DOD has stated that it would continue its evaluation of the science and technology reinvention laboratory demonstration projects when they are integrated under a single human capital framework. An evaluation and reporting requirement would facilitate congressional oversight of NSPS, allow for any mid-course corrections in its implementation, and serve as a tool for documenting best practices and sharing lessons learned with employees, stakeholders, other federal agencies, and the public.

Potential safeguards:

- Require DOD to fully track and periodically report on its implementation and results of its new human capital program. Such reporting could be on a specified timetable with sunset provisions.
- Require DOD to undertake evaluations that are broadly modeled on the evaluation requirements of OPM's personnel demonstration program. Under the demonstration project authority, agencies must evaluate and periodically report on results, implementation of the demonstration project, cost and benefits, impacts on veterans and other EEO groups, adherence to merit principles, and extent to which the lessons from the project can be applied elsewhere, including governmentwide. Provide that such reports be done jointly, in consultation with, or subject to review and approval of OPM.

Safeguards for Specific DOD Human Capital Policies and Practices

Performance Management and Pay Reform

DOD has said that the cornerstone of the NSPS will be a broad banded performance management and pay for performance systems. Performance-based pay flexibility for broad-based employee groups should be grounded in performance management systems that are capable of supporting pay and related decisions. DOD's personnel demonstration projects clearly provide helpful insights and valuable lessons learned in connection with broad banding and pay for performance efforts. At the same time these projects and related DOD efforts involve less than 10 percent of DOD's civilian workforce and expanding these approaches to the entire department will require significant effort and likely need to be implemented in phases over several years.

Potential safeguards:

- Establish statutory standards that an agency must have in place before it can implement broad banding or a more performance-based pay program:
    - Assure that the agency's performance management systems (1) link to the agency's strategic plan, related goals, and desired outcomes, and (2) result in meaningful distinctions in individual employee performance. This should include consideration of critical competencies and achievement of concrete results.
    - Involve employees, their representatives, and other stakeholders in the design of the system, including having employees directly involved in validating any related competencies, as appropriate.
    - Assure that certain predecisional internal safeguards exist to help achieve the consistency, equity, nondiscrimination, and nonpoliticization of the performance management process (e.g., independent reasonableness reviews by Human Capital Offices and/or Offices of Opportunity and Inclusiveness or their equivalent in

connection with the establishment and implementation of a performance appraisal system, as well as reviews of performance rating decisions, pay determinations, and promotion actions before they are finalized to ensure that they are merit-based; internal grievance processes to address employee complaints; and pay panels whose membership is predominately made up of career officials who would consider the results of the performance appraisal process and other information in connection with final pay decisions).

- Assure reasonable transparency and appropriate accountability mechanisms in connection with the results of the performance management process (e.g., publish overall results of performance management and pay decisions while protecting individual confidentiality, and report periodically on internal assessments and employee survey results).

- Require DOD to have OPM certify that a modern, effective, credible, and, as appropriate, validated performance management system with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, is in place to support more performance-based pay and related personnel decisions, before DOD could implement a new system. OPM should be required to act on any individual certifications within prescribed time frames (e.g., 30-60 days).

SES Pay and Performance

The proposed NSPS, similar to the Homeland Security Act, would increase the current total allowable annual compensation limit for senior executives up to the Vice President's total annual compensation. However, the Homeland Security Act provides that OPM, with the concurrence of the Office of Management and Budget, certify that agencies have performance appraisal systems that, as designed and applied, make meaningful distinctions based on relative performance. NSPS does not include such a certification provision.

Potential Safeguards:

- Require OPM to certify that the DOD SES performance management system makes meaningful distinctions in performance and employs the other practices used by leading organizations to develop effective performance management systems, before DOD could increase the annual compensation limit for senior executives.
- As part of that certification, require that DOD show how its SES performance management approaches are consistent with leading organizations', particularly in regards to establishing a clear, direct connection between SES performance ratings and rewards and the degree to which the organization achieved its goals.

SES Non-Career Appointments

The DOD proposal would allow the Secretary to waive the provisions of Title 5 that limits non-career SES appointments to 25 percent of an agency's total SES. We believe that Congress should consider eliminating the proposed waiver authority or otherwise place alternative numerical or percent of SES workforce caps on DOD's authority to make non-career SES appointments.

Attracting Key Talent

The legislation has a number of provisions designed to give DOD flexibility to help obtain key critical talent. Specifically, it allows DOD greater flexibility to (1) augment the use of temporary appointment authorities, (2) hire experts and consultants and pay them special rates and (3) define benefits for overseas employees. Specifically, the Secretary would have the authority to establish a program to attract highly qualified experts in needed occupations with the flexibility to establish the rate of pay, eligibility for additional payments, and terms of the appointment. These authorities give DOD considerable flexibility to obtain and compensate individuals and exempt them from several provisions of current law.

Potential Safeguards:

- Place numerical or workforce percentage caps on the use of these provisions.
- Require these provisions only be used to fill critically needed skills that are identified as such in DOD's strategic human capital plan.
- Place limits on the terms of individuals appointed under certain of the authorities noted above (e.g., the experts and consultants). Allow for limited re-appointment.
- Periodically report on the use of such authorities.

Personal Services Contracts

The legislation gives DOD greater flexibility to enter into personal services contracts for experts and consultants for national security missions, including for service outside of the United States. Such contracts may waive the Ethics in Government Act of 1978, chapter 73 of Title 5 US Code (which includes conduct and the Hatch Act), and section 27 of the Office of Federal Procurement Policy Act (which includes limitations of subsequent employment for contracting officials). We believe that Congress should consider eliminating the waiver authority for some or all of the waiver provisions.

Reduction in Force

The legislation could also allow DOD to revise Reduction-in-Force (RIF) rules to place greater emphasis on an employee's performance. DOD has indicated that it will be considering for application DOD-wide, personnel practices that were identified in the April 2, 2003, *Federal Register* notice. This notice describes revised RIF procedures that change the order in which employees would be retained under a RIF order and does not directly provide for length of service to be considered. Specifically, employees would be placed on a retention list in the following order: type of employment (i.e., permanent, temporary), level of performance, and veterans' preference eligibility (disabled veterans will be given additional priority), which would reduce the order in which veterans' preference is currently provided.

Potential safeguards:

- See the safeguards related to modern, effective and credible performance management systems above.
- Specify in statute—rather than leaving it to DOD to determine–the criteria for the release of competing employees in a reduction in force. These may include: type of employment, (e.g., permanent, temporary), performance, veterans' preference, and length of service.

Rightsizing and Organizational Alignment

The proposal also provides that annuitants who receive an annuity from the Civil Service Retirement and Disability Fund and become employed in a position within the Department of Defense shall continue to receive their unreduced annuity. This and selected other NSPS provisions will clearly have incremental budget implications for which we have not seen any related cost estimate.

Potential Safeguards:

- Require additional financial accountability by requiring DOD to consult with OPM on the planned number of reemployed annuitants.
- Place numerical or FTE percentage limitations on the use of these provisions.
- Require these provisions only be used to fill critically needed skills that are identified as such in DOD's strategic human capital plan.
- Place limits on the terms of individuals appointed under this authority. Allow for limited re-appointment.
- Periodically report on the use of such authorities.

Summary Observations

We at GAO strongly support transforming DOD and the federal government at large. In fact, we are in the vanguard of the federal government's transformation and we plan to stay there. We applaud Secretary Rumsfeld and DOD's leadership's efforts to transform how DOD does business.

Many of the basic principles underlying DOD's civilian human capital proposal have merit and deserve serious consideration. The proposal is, however, unprecedented in its size, scope, and significance. As a result, it should be considered carefully--and not just from a DOD perspective. DOD's proposal has significant precedent-setting implications for the human capital area in government in general, and for OPM, in particular. DOD's request raises several critical questions both for DOD as well as governmentwide policies and approaches. Should DOD and/or other federal agencies be granted broad-based exemptions from existing law, and if so, on what basis? Does DOD have the institutional infrastructure in place to make effective use of the new authorities?

Agency-specific human capital reforms should be enacted to the extent that the problems being addressed and the solutions offered are specific to a particular agency (e.g., military personnel reforms for DOD). A government-wide approach should be used to address certain flexibilities that have broad-based application and serious potential implications for the civil service system, in general, and the OPM, in particular. However, in all cases whether from a governmentwide authority or agency specific legislation, in our view, such additional authorities should be implemented (or operationalized) only when an agency has the institutional infrastructure in place to make effective use of the new authorities.

As you know, we have strongly supported the concept of modernizing federal human capital policies, including providing reasonable flexibility to management in this critical area. However, adequate safeguards must be in place to prevent abuse. Significant progress has been—and is being—made in addressing the federal government's pressing human capital challenges. But experience has shown that how it is done, when it is done, and the basis on which it is done, can make all the difference in whether or not we are ultimately successful.

Chairman Voinovich, Mr. Durbin, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have.

Contacts and Acknowledgements

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DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

UNITED STATES SENATE

SUBJECT: "An Overlooked Asset: The Defense Civilian Workforce"

STATEMENT OF: THE HONORABLE MICHAEL L. DOMINGUEZ
ASSISTANT SECRETARY OF THE AIR FORCE
MANPOWER AND RESERVE AFFAIRS
UNITED STATES AIR FORCE

12 MAY 2003

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SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
UNITED STATES SENATE

INTRODUCTION

Mr. Chairman, I appreciate the opportunity to discuss the importance of our civilian workforce to maintaining Air Force readiness and accomplishing the Air Force mission. Today, we face a great challenge. We must adapt to a new steady state of accelerated operations and personnel tempo, face new enemies across the globe and here at home, and innovate rapidly to maintain our edge in the domain of air and space. This is our "transformational challenge" and business as usual will not be adequate to it. Our Air Force civilian workforce played important roles in helping us meet past challenges, and they will be critical partners in our Total Force team as we face this one.

Status of proposed civilian workforce reductions in the coming years and the rationale behind such reductions:

No single part of the Defense program alone holds the key to our success. The threats we face demand that we fight and win the Global War on Terror; protect readiness for the next conflict; modernize our aging weapons systems; recapitalize our deteriorating physical plants; retain our most experienced, skilled and "in demand" workers; realign our workforce skills to match tomorrow's needs, and do all of this without unduly burdening the nation's taxpayers and its economy. We believe the budgets we have prepared and submitted to the Congress achieve a reasonable and prudent balance among these competing demands. In our Fiscal Year 04 budget, we decided to reduce growth in aggregate labor costs, focusing our resources on re-shaping our force. Other than through scheduled competition and outsourcing activities undertaken in accordance with the provisions of OMB Circular A-76, our FY04 budget does not shrink

our force. We must, in this current fiscal year, however, implement civilian workforce reductions dictated by decisions made in previous budgets.

Force shaping--adapting our workforce to the challenges we face--will not be easy however, and there is turbulence ahead for our current employees. We'll place new demands on our civilians, as we shift our uniformed workforce toward the warrior-tasks of an expeditionary Air Force. As we recognize and understand our core competencies we'll focus our in-house workforce on those activities, transitioning many other tasks to public and private sector partners outside the Air Force. Most functions remaining in-house will be re-engineered to drive down costs and improve performance. Our Air Force transformation is a journey we have only just begun. As we progress, the size of our workforce will change, as will their skills.

Workforce Shaping Authorities Progress (Reference the FY01-02 NDAA 9,000 voluntary early retirements and/or voluntary separation incentive payments):

Senator Voinovich, the members of the Air Force team appreciate your assistance in developing the tools we will use to help us shape our civilian workforce for the challenging future we face. The flexibility of the Workforce Shaping Voluntary Separation Incentive Pay (VSIP) allows us to bring in employees with state-of-the-art skills and knowledge without the penalty of abolishing a position or RIFing an older employee. Without the Workforce Shaping VSIP, it would not have been possible for us to restructure many senior supervisory positions to entry or journeyman levels.

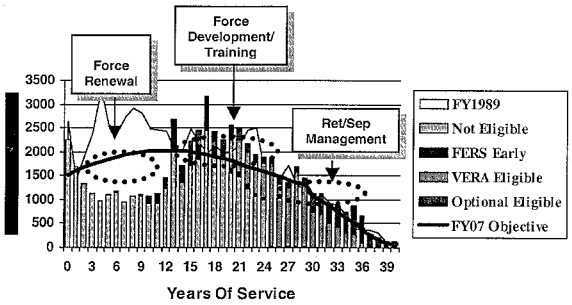
In FY01, DoD allotted the Air Force 284 Workforce Shaping VSIP authorizations. Due to the late distribution of the allocations and financial constraints, we only used 175. At first, we were allowed to offer Workforce Shaping VSIP to employees who were eligible for optional retirement; we did not use the Voluntary Early Retirement Authority in conjunction with the VSIP. In FY02, DoD guidance changed to permit the use of optional retirement, early retirement, and resignation in conjunction with VSIP. Approval authority was delegated to the Components, which we further delegated to our major commands. These flexibilities led to a greater use of VSIP authority in FY02, and we used 450 of the 457 allocations received from DoD. (Seven employees changed their mind at the last minute and did not use the VSIP and it was too late to reallocate them within the AF and DoD.)

Our philosophy for managing our current force restructure has consistently been to use voluntary programs first, and to use involuntary Reduction-in-Force (RIF) only as a last resort.

Possible law changes that would enhance the Department's ability to manage its civilian workforce:

Since 1989, we have eliminated or realigned over 100,000 civilian positions as we downsized the force. Civilian hiring was constrained as we attempted to minimize the impact of downsizing on our existing employees. The following chart illustrates the effect of the downsizing strategy on the demographics of the civilian workforce.

- AF drew down 100,000 civilian positions since 1990—hiring has been constrained
  - 42% eligible to retire in 5 years
- Developed workforce strategy



Force shaping legislation and funding needed to provide the right mix of junior, mid-level, and senior employees

The drop in accessing new employees created a deficit in civilian employees with under ten years service – tomorrow's civilian leaders. In addition, this segment of civilian workforce population has been leaving Air Force employment at an increasing rate over the last five fiscal years. Simultaneously, the downsizing strategy resulted in an overall force profile with increasing numbers of mid- to late-career employees. Within five years, approximately 42% of the civilian career force will be eligible to retire, either through voluntary retirement or early out - an estimated 20% of this force could retire by 2005.

The Air Force is finding it challenging to retain its mid-career employees and to attract younger candidates who possess state-of-the-art technical skills. In addition to positions that have been traditionally hard-to-fill (environmental engineers, bench scientists, medical personnel), we are finding it difficult at specific locations to recruit support personnel such as contracting specialists and aircraft mechanics. Even with the use of current flexibilities, such as recruitment, retention or relocation bonuses, and the slowdown in national economic growth, we are finding it difficult to entice

intelligence, computer, and language specialists, among other skilled professionals, to join our team.

One of the factors contributing to civilian recruitment and retention problems is the civilian personnel management system. The current system was developed to meet the challenges of the early twentieth century and cannot quickly or adequately respond to the needs of the twenty first century. The hiring process, classification system, pay authorities and performance management programs reflect a different, less technical environment that impedes our ability to recruit and retain the best and the brightest. It results in the loss of good candidates, rewards longevity rather than performance, and restricts management's ability to rapidly move employees to meet new workloads or emergencies created by our national security environment. As our missions are re-directed and technology advances, we need a workforce that balances permanence and continuity with the ability to refresh itself with new sets of skills and talent.

While recognizing and supporting the need for a total overhaul of the entire personnel management system, Air Force leaders made maximum use of the flexibilities the current system does provide {please outline the flexibilities that the Air Force is using and provide information on how those flexibilities are working for the Air Force}. The Air Force successfully uses recruitment, retention and relocation bonuses; superior qualifications appointments; voluntary separation incentives; special salary rates; student loan repayment; pay for degree; outstanding scholar appointments; student employment programs, direct hiring authority for medical personnel and other authortities. These programs and special pay incentives are used to the fullest extent

possible to manage and shape our force, within the limits of the programs. Our Civilian Personnel Management Improvement Strategy (CPMIS) was developed to guide implementation of these tools, and to begin the workforce shaping, sizing and developing necessary to meet the demands and challenges of the 21st century. Traditionally, the Air Force civilian workforce provides continuity and comprises a significant percentage of personnel in the scientist, engineer, contracting, financial management, logistics, and maintenance career fields. In the Expeditionary Air Force (EAF), the role of continuity extends to providing the "reachback" expertise necessary to support deployed troops, where previously that support was provided through forward-deployed bases. Civilians are an integral part of the complex system that keeps the fighters, bombers, tankers and rockets flying. Civilians also play a critical role in the Department of Defense's (DoD's) homeland security mission.

The Civilian Personnel Management Improvement Strategy includes initiatives that invest in the training, reskilling, and education of the Air Force's civilian workforce. It contains a series of initiatives, a funding strategy, and a legislative strategy designed to promote orderly succession planning while ensuring the resultant workforce is also cost effective.

Recently we asked our bases to identify specific limitations of the current personnel management system that severely impacted the ability to meet their missions. We received numerous responses; here are a few:

- At Eglin Air Force Base, FL, which develops, tests, acquires and sustains integrated air armament and agile combat support, 9/11 created significant security

issues. Eglin AFB is accessible by land and water and installation access and the security of large test ranges were enormous concerns. They needed to hire additional civilian security guards and police officers immediately. Under normal hiring procedures this would have been unthinkable. By the time the job announcement hit the streets, candidates were rated and ranked, selection certificates issued, months would have gone by and many of the best qualified candidates would have found jobs in other companies. To complicate the situation, many of Eglin's military security forces were deployed, so the increased workload would have been absorbed by the already stretched military security personnel or assigned to non-security force personnel taking them away from their work. Fortunately, the 'on the spot" emergency hiring authority was available and 69 temporary civilians were hired as a stopgap. This situation is not unique to Eglin, as nearly all of our bases have had to respond quickly to the urgent situation of 9/11. ~~Unfortunately, the emergency "on the spot" hiring authority can only be used for temporary employment and is not aiding us in locating language specialists, intelligence specialists, scientists and others needed to win the war on terrorism. We must have a permanent "on the spot" hiring authority to cut through the bureaucracy of the Federal hiring system and not allow top candidates to slip away from us.~~ (Please include language that mentions that the Homeland Security Act (P.L. 107-296) includes Governmentwide direct hiring authority in cases of severe shortage or critical hiring need, and explain how this authority may help the Air Force meet its needs.) Reclama OMB input: We wish to retain our original statement. P.L. 107-296 (Sec 1312, 3, A) requires that positions must have public notice prior to appointment. The emergency special hiring authority does not require any public notice for appointment. This flexibility is what is sought in new proposals.

- Patrick Air Force Base, FL and Vandenberg Air Force, CA are directly involved in space launch and satellite surveillance operations. Their mission is highly technical, unique, and secret. The current classification system is not flexible enough to evolve with technology. Our positions frequently require a combination of skills that current classification standards do not address. Managers spend hours trying to use the current system (with outdated standards that were written to support the technology of the last century) to match their highly specialized duties and responsibilities. Rather than dedicate months to classify a position at the appropriate grade and duty level, managers at Patrick and Vandenberg when faced with short deadlines chose to hire contractors rather than Federal employees. We need generic, broad classification criteria that could readily and easily be adapted to local needs. Pay banding and its simplified classification system would free managers from the time intensive current process and allow them to use their discretion in establishing appropriate positions and levels for their organization.

For several years now, the DoD has been testing actively many of the management flexibilities mentioned above, and more. The Laboratory and Acquisition Demonstration Project and the Defense Civilian Intelligence Personnel System already use these flexibilities and more for their 7,400 Air Force covered employees. These demonstration projects and alternate personnel systems have shown that high performers are attracted and retained when their accomplishments and contributions are reflected in their pay.

Acknowledging the success of the demonstration projects and alternate personnel systems, the Under Secretary of Defense for Personnel & Readiness began a review of personnel management flexibilities already in use within the Federal Government. Multi-Component, multi-functional work teams and senior functional executives completed this yearlong review that identified "best practices"--those with the highest rate of success. Together, these "best practices" support a performance management system that provides greater responsibility and incentive for managers to fairly assess performance and that aligns rewards and opportunities with employees' contributions to the mission. Pay banding is a best practice, since, among other benefits, it will streamline the laborious classification system and the excessively process-oriented placement system by giving managers more latitude to move employees when and where they are needed. Best practices include a pay system that ensures supervisors and managers are paid commensurate with expanded responsibility and accountability. Best practices allow federal government organizations to get the right people to the right place at the right time by providing hiring flexibilities, such as on the on the spot hiring for emergencies and critical positions, significantly reducing the time it takes to fill vacant positions.

The Secretary of Defense incorporated these Best Practices into a legislative proposal for creation of a National Security Personnel System (NSPS) for defense civilians. The NSPS was recently introduced into Congress as an opportunity to build a mission-based, total force system of management for defense civilians that supports the national security while retaining civil service values and core protections. The legislation preserves merit system principles and continues to accommodate veterans'

preference and our obligation to bargain with labor organizations. The system would allow managers to hire more quickly; to pay more competitively; and flexibly deploy, advance and remove employees. It would also institutionalize DoD's current VSIP authority for both workforce reduction and workforce shaping.

SUMMARY

The Air Force must continue to transform, moving toward a more expeditionary posture while assuming new missions, and adapting to new threats. To transform, in this security environment, we must shape, not shrink, our workforce.

We sincerely thank the Congress, especially Senators Voinovich and DeWine for the workforce shaping authorities, which we now use to compensate for the coming retirement of a large portion of our civilian workforce. However, we need additional support. To shape the workforce appropriately for our challenging future, we need a modern civilian personnel management system tailored for and responsive to the unique demands of our national security mission. The Department's new National Security Personnel System proposal incorporates many of our CPMIS initiatives, and we enthusiastically and energetically support this legislation. Indeed, we believe it is essential to the Air Force's ability to accomplish its Air and Space mission in this emerging future.

We thank you for your continued interest in the Air Force and welcome your leadership as we continue to shape the force for the 21st Century.

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

UNITED STATES SENATE

SUBJECT: "An Overlooked Asset: The Defense Civilian Workforce"

STATEMENT OF: GENERAL LESTER L. LYLES
COMMANDER, AIR FORCE MATERIEL COMMAND
UNITED STATES AIR FORCE

12 MAY 2003

NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
UNITED STATES SENATE

Mr. Chairman, thank you for the opportunity to address the state of the Air Force Materiel Command's civilian workforce before your subcommittee. Human capital strategic management is a critical aspect of our Transformation efforts, and we believe we are making significant progress in strategically managing our workforce, although we know we need to do more. We greatly appreciate the considerable support you have provided in this arena, from your successful introduction of legislation to allow the Department of Defense to use separation incentives as a force shaping tool, to the personnel flexibilities you added to the bill creating the new Department of Homeland Security. We welcome the opportunity to explain the successes we have had, the challenges we continue to face in this crucial matter, and to offer other areas for your consideration to help address these challenges.

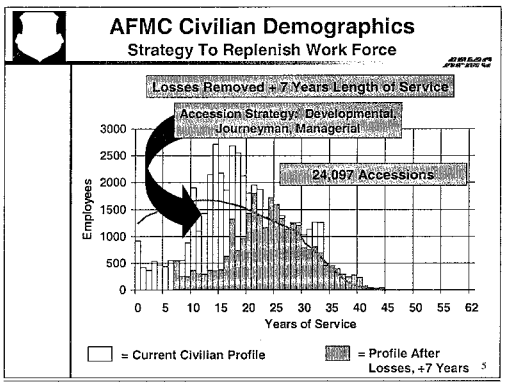
Background

I am pleased to report that the current state of our civilian workforce, 56,000 men and women strong, is first-rate, contributing greatly to the critical efforts of this command to support the warfighter. However, our concern with our civilian force has focused on the future, and our ability to shape the future force to ensure we can continue to effectively meet our mission imperatives for the 21st century. In order to accurately assess the current and projected state of our civilian workforce, it is necessary to understand how the past has shaped our present force. When the Air Force Logistics Command and Air Force Systems Command merged in 1992 to form the Air Force Materiel Command (AFMC), the combined civilian workforce totaled more than 93,000. Today our assigned civilian strength is just under 56,000. The closure of two of our Air Logistics Centers as a result of the Base Realignment and Closure (BRAC) process, the

transfer of Space and Missile Center to the Air Force Space Command as well as other transfers totaling approximately 13,000 authorizations contributed to the overall drop in our resources, but significant cuts were also levied across the command at each of our installations, as the Department of Defense downsized in the post-Cold War environment. Of the nearly 24,000 reductions we absorbed, the vast majority were accomplished through limitations on new hiring and by offering incentives to employees to retire or resign, although involuntary separations through reduction in force were also needed to manage our cuts. This command committed to minimizing adverse impact on our employees, by making every effort to place affected employees on continuing positions, although in some instances that was not possible.

The end result of this decade of downsizing was that AFMC consisted of a force rapidly approaching retirement eligibility, with few trainees available in the pipeline to draw on for future mission needs. In awareness of this concern, the AFMC Commander at that time, General Babbitt, directed a study be conducted to address how the command's human resources could be tailored to meet the future mission needs of AFMC. The results of this ground-breaking inquiry, completed in April 2000, reflected that AFMC would need to access approximately 24,000 new civilians over the next 7 years, and identified barriers to the achievement of this projected massive hiring surge. The study also identified needed policy and legislative enhancements that this command committed to pursuing, to allow us to overcome the cited barriers. In response, the command established a Work Force Shaping Office dedicated to conducting work force planning, implementing needed work force initiatives and advocating for funding and policy/legislative initiatives to support identified human capital needs.

The results of the initial study are highlighted in the chart below. The white bars reflect the workforce distribution by years of service in FY00; the green bars reflect the projected workforce distribution after 7 years (static model—e.g. assumed no new accessions). The red line represents an AF/DP-developed model on the optimal distribution of the workforce, based on maximizing skill level requirements and minimizing civilian payroll costs. The AF/DP template reflects that approximately 30 percent of the workforce should consist of employees with 10 or fewer years of service. At the time, the command workforce with less than 10 years of service was approximately 16 percent. Today the comparable figure is nearly 25 percent, due to our focused hiring efforts, which is much closer to the AF goal.

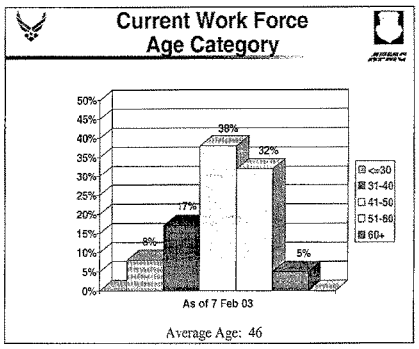


Work Force Profile

Approximately 20 percent of our civilian employees are professional workers, primarily engineers, while nearly a third of the force is employed in administrative positions, such as Contract Negotiator, Program Manager, or Logistics Specialist. As a result of our sustainment mission within the Air Logistics Centers, nearly a third of the force command-wide is blue

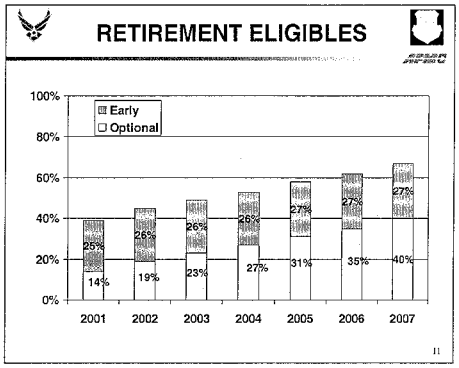
collar, primarily aircraft maintenance and related skills. Only 5 percent of the force is clerical, down significantly from 1991, when clerical positions constituted 12 percent of the total. This mirrors the more general transformation of this command to a more technologically and business focused entity. The types of positions we have today, and the types of positions we anticipate filling in the future, are critical to the design of our human capital strategic management plan.

Today the average age of our civilian employees is 46, which is down very slightly from the past few years, but significantly above private industry averages, which is closer to late 30s. In 1991 our average age was 43.6—it had been on a steadily upward movement, but has trended slightly downward over the past two years. A break out of our workforce by age is provided:



An older workforce is an experienced workforce, and that is helpful to us in the short term. To a certain extent, we have been able to maintain our mission effectiveness, despite a much smaller workforce, due to the expertise of our seasoned civilian force. However, we are concerned that 23 percent of our civilian employees are eligible to retire this year. If we also consider employees eligible for early retirement, the figure jumps to 49 percent. In four years, 67 percent of our force will be eligible for regular or early retirement. When we look at current supervisors and managers, the statistics are worse: 68 percent are eligible for regular or early retirement in

2003—by 2007, 83 percent will be in this category. We recognize that an employee who is eligible to retire will not necessarily immediately separate. However, an analysis of our AFMC data reflects that somewhere between 25-35 percent of employees retire within one year of eligibility, and an additional 15-20 percent leaves the following year. Clearly, we foresee a great deal of employee turmoil over the next several years, as seasoned employees retire, and new candidates are hired to replace the losses.



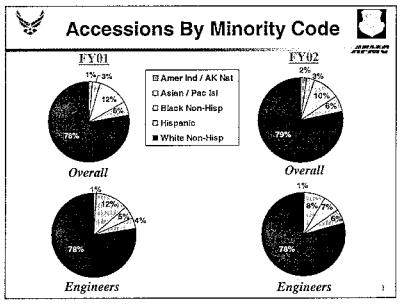
The age of our force, and the anticipated wave of retirements, has many implications for the future, in terms of funding and initiatives that must be used effectively to recruit, train and retain our future workers.

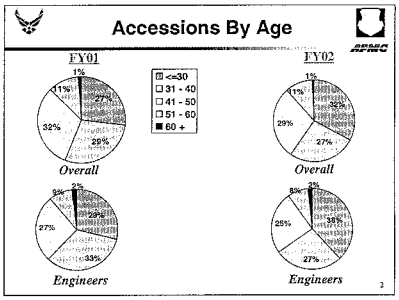
Demographically, 33 percent of our civilian force is female, and 67 percent male. Minority members represent 21.1 percent of the total force. We are very interested in ensuring we have a diverse workforce, and, despite the downsizing we experienced, our overall representation of minorities has held fairly steady. However, there are certain groups of potential candidates to whom we need to reach out. Hispanics are the fastest growing minority group in the country, and our representation of this group within the command has decreased, primarily due to the closure of our San Antonio Air Logistics Center at Kelly AFB, Texas, as a result of BRAC. We continue to monitor our diversity situation closely. In addition, approximately 36 percent of our civilian force has at least a bachelor's degree, and an additional 28 percent have at least some college. By skill level, 80 percent of our force consists of journey employees, 12 percent are

managers and only 8 percent are in developmental positions. Although this may seem low, it is up significantly from 3 years ago, when the percentage of developmental employees was only 2 percent. This increase can be attributed to our workforce planning efforts.

Progress We Have Made

Unlike the military, the vast majority of our hiring is conducted at the local level, as opposed to being accomplished centrally. Within this command, only 6-10 percent of our total accessions are managed centrally. This fact reflects the importance of a command-wide focus on the hiring that is executed at our centers. With the ability to conduct a focused recruitment effort over the past few years and our use of targeted force shaping separation incentives (outlined in detail below), we have made significant progress in reshaping our force. For example, in FY91, 38.4 percent of the civilian force had 10 or fewer years of service. By FY99, that percentage had dropped to 15.7. Happily, we are rebounding: today, nearly 25 percent of our force has fewer than 10 years of service. This represents the pool of candidates from which our future workers and leaders will be drawn. Using another measure, in FY97, approximately 6.3 percent of our force separated, and we rehired only 5.5 percent of that total. By FY99, we were experiencing separation rates of 12.4 percent (some of it intentionally via incentives) while refreshing the force at only 5.4 percent. When we separate more employees than we hire, we cannot begin to shape the force of the future. Today, we are experiencing an attrition rate of 8.3 percent, and are hiring at 8.6 percent of the total—a much healthier state. Information on our accessions for the past two years, by minority and age, are provided for information.





Work Force Initiatives

As stated above, our initial work force study included an analysis of the barriers we identified to meeting our future workforce challenges. We then determined what legislative or policy relief was needed to eliminate these barriers. With the assistance of Air Force, the Department of Defense and the Office of Personnel Management, we have been able to implement a number of initiatives as a result of this effort, and more are on-going. A list of some of our key initiatives is provided below:

a. *Delegated Examining Unit for Six Centers* (Edwards, Eglin, Hill, Robins, Tinker and Wright Patterson): Due to the significant level of hiring projected over the next 4-9 years it was critical that our centers have the capability to control the external hiring process, where candidates new to the government are selected. Therefore, six of our larger centers sought and obtained the ability to manage the rating and ranking process in-house. This has been an effective measure, enabling our centers to provide timelier processing of vacancies and better customer service to potential applicants.

b. *Ability to use Recruiting, Retention and Relocation Bonuses for Blue Collar Employees:* Our centers determined that when surge hiring of specialized blue collar candidates was required, particularly in the aircraft maintenance arena, federal salary levels worked against our ability to successfully recruit sufficient high quality candidates. The ability to offer a range of compensation initiatives to blue collar workers has provided our centers more flexibility in achieving targeted hiring levels. OPM extended this authority to wage employees in Jan 01, after this command requested consideration of the initiative.

c. *Supervisory Guide to Work Force Planning:* Due to the complexity of our current personnel system, we found that many of our supervisors and managers were unaware of the flexibilities that currently exist to recruit and retain a high quality workforce. To remedy that concern we developed an easy-to-read guide that outlines the range of methods available for filling civilian positions, explaining existing personnel flexibilities and authorities, and providing ways currently available to increase pay. This guide was forwarded to each of our centers and posted on our Work Force Shaping web page, to allow easy access for all our managers.

d. *Entrance and Exit Surveys:* In our effort to benchmark our human resources policies to private industry best practices, we found that industry frequently uses employee surveys to assess the success of recruitment and retention initiatives currently in place. In order to gauge the strengths and weaknesses of both our recruiting and retention efforts, AFMC decided to implement entrance and exit surveys. Entrance surveys are now given to employees 120 days after entrance on duty, and exit surveys are given at the time employees separate from AFMC service. We are partnering in

this initiative with the Air Force Personnel Center Survey Branch, who send the entrance surveys to new employees and conduct the initial analysis of survey results. Because this is a new initiative, we have not yet obtained results, but anticipate initial data in the near future.

e. *Diversity Best Practices*: Many of our centers implement effective recruiting and retention efforts based on locally identified concerns. We recognize that we must leverage the good ideas from across the command to ensure our entire organization benefits from the creativity of each of our members. In that vein we recently sought examples of diversity best practices from across the command. We are currently assessing which of these initiatives to implement command-wide, based on likely impact and measurable results. Several of these high-interest proposals could have immediate and long range benefits as we shape tomorrow's work force. These proposals include:

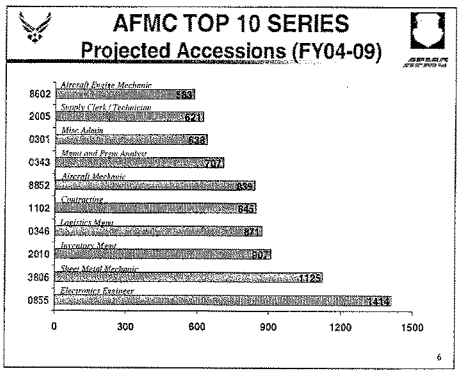
   a. *Leadership Enhancement and Preparation,* an initiative designed by Eglin AFB to establish a formal mentoring program to enhance leadership development and workforce diversity for aspirants to upper level management positions.

   b. *Diversity Training,* an initiative undertaken by Wright-Patterson AFB, Robins AFB and others to explain to all employees how a diversified workforce is a business imperative in today's marketplace.

   c. *Adopt-a-school,* an initiative being explored by several centers to adopt a local, inner city middle school to provide tutoring services and mentoring support for at-risk students.

f. *Work Force Planning:* In conjunction with the Air Force Planning, Programming and Budgeting cycle, we assess our centers' future hiring requirements annually. We apply an actuarial-based loss model to our employee data base, to determine likely numbers of losses due to retirement, resignation and other separations, by center, by year, by occupational specialty. We provide this information to our centers, who further refine the data, based on local insight into changes in mission direction that impact the distribution of skills required for the future. This information is then used to determine our funding requirements for recruiting and retention initiatives, including such items as recruiting bonuses, first duty station payment, and relocation bonuses. The information is also used to determine the level of funding required to support training courses that new employees must attend to become effective in their positions. As a result of the massive number of new hires we must access, our training needs have grown tremendously. To account for that, each of our major command functional areas (*e.g.* logistics, contracting, engineering, program management) developed a template of courses needed by new employees. The accession plan allows us to program and budget sufficient funding to pay for needed courses, and to ensure that adequate numbers of Air-Force provided courses are scheduled to meet our needs. In addition, the plan provides guidance as to how many total positions we anticipate filling over the next six years (21,400 between FY04-FY09) and what skills will be most in demand. For the past few years engineering in general, and electronic engineering in particular, is projected to be the skill we will be most in need of (2,677 engineers over the same period). This gives us data we can use to determine where we need to focus our attention, from a center and a command

perspective. The need for sizeable numbers of engineers has led to a number of initiatives (outlined below) specifically targeted to this group, based on the paucity of graduating engineers across the country relative to the demand, and our inability to compete with private industry on the basis of salary alone. The General Accounting Office conducted a review of our workforce shaping efforts last year, and specifically cited our work force planning efforts as a federal government best practice. A chart reflecting the top ten occupational requirements we project over the next few years is provided :



g. *Group Retention Allowances*: Based on the excessive employee turnover and difficulty in recruiting certain types of engineers experienced by our Air Logistics Centers, the command agreed to offer group retention allowances to all AFMC electrical, electronic, mechanical and aeronautical engineers at grades 5-12, who are duty located at Tinker, Hill and Robins AFB. This incentive amounts to a 10 percent increase in basic pay, which will commence in Jul 03.

h. *Centralized Recruiting Program*: We have found that our centers have the greatest difficulty in recruiting for high quality minority member scientific and engineering candidates. Since electronic engineering is our number one accession requirement for the future, and we have a great need for other engineering specialties as well, we have implemented a command-wide recruitment program targeting this group of highly sought after candidates. We have attended, or plan to attend the following national career fairs this year: Black Engineer of the Year Award Conference, Society of Hispanic Engineers Conference, National Society of Black Engineers Conference and Hispanic Engineering National Achievement Awards Conference. We provide the resumes that we obtain from these conferences to our center civilian personnel offices and strongly encourage them to use this targeted source of high quality applicants. To ease the confusion that applicants for AFMC positions can experience, we developed a public web page, which explains what we have to offer, and how to apply for specific vacancies. The page links to each of our centers' public web page for more detailed center explanations.

i. *Workforce Development and Training Initiatives*: We have pursued a number of initiatives to ensure our force is trained to meet future mission requirements. Several of these include the following:

   a. *Individual Development Plans* are prepared for all civilian and military members in an effort to identify training requirements that will enhance both personal and professional growth and outline career goals. The data is captured through an automated command-wide system and is used to support the Programming, Planning and Budget process.

b. *AFMC Mentoring* is a command-wide initiative to provide web-based mentoring information and connections to mentoring opportunities that is designed to encourage retention of critical workers.

c. *Educational and Training Partnerships:* Several of our centers participate in such partnerships with local colleges and universities. These range from blue collar apprentice programs to college credit for supervisory development courses to conversion of traditional classroom-based courses to computer based training.

j. *Expansion of Air Force Institute of Technology:* While not exclusively an AFMC initiative, the positive changes experienced by AFIT impact us greatly. Three initiatives directed by Air Force Secretary James G. Roche are positively impacting AFMC's relationship with and utilization of the Air Force Institute of Technology (AFIT) relative to our engineering work force. First, as a result of a joint study chartered by Secretary Roche and Secretary of the Navy Gordon R. England, the Air Force and Navy signed an agreement to form an alliance between the AFIT and the Naval Postgraduate School (NPS). NPS will be the lead institution for space operations while AFIT will be the lead for space science. NPS will no longer have an aeronautical engineering curriculum. However, it will continue to offer curricula in acquisition and meteorology, which AFIT will no longer offer. Second, at the direction of Secretary Roche, the Air Force Institute of Technology has established a new Center for Systems Engineering. Systems engineering is the glue that holds together all the processes performed within the acquisition and sustainment communities. AFMC and Air Force Space Command will play prominent roles as

both customers of the Center's education and training programs and as suppliers for some of the manpower and resources associated with the practical application of systems engineering principles to weapon systems acquisition and sustainment. Third, Secretary Roche directed an increase in graduate education quotas. The increase, which will affect the Naval Postgraduate School and AFIT's civilian institution programs, as well as its resident program, will see the current annual quota of 500 students rise to approximately 2500 graduate education opportunities annually by fiscal 2009. In addition, AFMC and AFIT continue to pursue direct partnership efforts supporting our functional communities. For example, for now, AFIT provides numerous hybrid short courses (combination of web-based and classroom) for our acquisition community satisfying the regulatory requirement for continuous learning.

k. *Air Force Programs*: Air Force senior staff has been receptive to our requests for work force shaping assistance, and several initiatives have been undertaken which help this command. Based on our workforce shaping study finding, beginning in FY02, AF increased the number of centrally-funded interns by 120 a year. This is helpful to us because these interns are brought to our centers for three years, at no cost to the center payroll. At the end of the intern period, centers must place the employees on center-funded slots. This allows our activities to hire more trainees than they otherwise could. This command gained approximately 65 additional intern spaces annually from this initiative. This year the Air Force initiated a centrally-funded cooperative education program. The co-op program is highly effective, since students work for the government for a specified period of time, and can then be hired permanently with no additional competitive hiring requirements to be met. This

command was allocated 61 centrally funded co-op slots this year. In addition our centers have been self-funding this program in much greater numbers over the past few years. In FY00, the command had fewer than 100 co-op slots in total. Today we have in excess of 225 such slots. Air Force has also recognized the need for additional flexibilities in hiring and retaining engineers. They have allocated funding for the command to cover recruiting and retention allowances for scientists and engineer positions, which is slated to continue in the out-years. Funding has also been allocated to develop a robust recruiting program for scientists and engineers, to include advertising to increase awareness of civilian S&E opportunities, an S&E public web page and the offering of a training course for S&E civilian recruiters, similar to what the military recruiters obtain. Although we appreciate Air Force's efforts to support our work force initiatives with funding, the effort is complicated by the fact that our work force receives civilian payroll funding from multiple appropriations, including Operations and Maintenance, Defense Working Capital, Research and Development and Test. It is a continuing challenge to ensure that AF-funded incentives can be used for all of our employees. The inability to use these allocations for our entire workforce tends to result in de-motivating a portion of the very individuals we are seeking to encourage. *(NOTE: The Air Force has also supported incentives for our military engineers. A $10,000 per year critical skills retention bonus was recently approved for military engineers with 4-13 years of service, requiring 4-year service agreements)*

Work Force Shaping Separation Incentives

This command is extremely appreciative of the opportunity the Chairman has afforded our centers to reshape their workforces with the passage of the work force shaping separation incentive initiative. Although not included in the list of incentives above, the need for this authority was a key element in our work force study findings. We found that our centers lacked the "headroom" to hire significant numbers of new employees that could be trained in advance of the bow wave of retirements that were facing us, and they had no tools to encourage the attrition that would create headroom. This authority provides us the ability to incentivize employees who may not have the skills this command needs for our future mission accomplishment (as we focus on transformation, new technologies and weapon systems), and allow us to backfill the resulting vacancy with a candidate who possesses the skills we need. By encouraging these employees to leave on a graduated basis, we can realign the vacant positions to the new skill areas required for the future and begin the process of training new employees to meet our mission requirements in a measured manner, before the exodus of aging baby boomers leaves us with little expertise to draw on for the future.

We have found that this authority is most valuable to our product and test centers, and the Air Force Research Laboratory. The closure of two major Air Logistics Centers (ALCs) and the transfer of workloads from those centers to the remaining three ALCs meant that these activities had a large number of authorizations to fill. The existence of these vacancies offered the ALCs an opportunity to reshape their sustainment force in a way our remaining centers were not able to duplicate. This explains the relatively low usage of this authority among our ALCs (Tinker, Hill, Robins).

The chart below documents the usage of this authority, by center, by year. The requirements and flexibilities associated with this authority have been different in each of the three years we have used it. In FY01 the authority could be used only to incentivize employees currently eligible for optional retirement only (*i.e.* employees eligible for early retirement could not be incentivized). There was no authority to use what we call "daisy chain" authority in that year. Daisy chain authority allows us to incentivize an employee in a top grade, for example, a GS-15 manager. Through a series of internal promotions a vacancy at the journey level (normally GS-12) is created. This vacancy can then be restructured to the entry level in an area where more such skills are needed to allow for force replenishment. In the absence of "Daisy chain" authority, the position previously occupied by the incentivized individual must be restructured. This limits the number and types of employees who can be offered this initiative, since it is difficult to restructure a managerial or supervisory position to the entry level. This command used 147 of the total 175 allocations the Air Force executed in FY01.

In FY02 we were given authority to use the daisy chain and also to offer incentives to employees eligible for early as well as optional retirement and resignation. This command used 362 quotas of the total AF allocation of 450. As reflected in the chart below, our take rate in FY02 was substantially higher than in either FY01 or FY03 to date. Nearly 40 percent of the FY02 incentives were approved for individuals taking early retirement. We did not use this authority to approve resignations, since it is not the goal of this tool to incentivize such employees to separate. This year, we are again able to offer incentives to early retirement eligibles , but were precluded from using the daisy chain authority. For FY03, this command was authorized a total of 750 incentive authorizations. Due to the unplanned reductions that our centers must absorb this year, it is unlikely that we will be able to use all the authorizations allotted to us. Many

separation incentives we have offered were approved to create vacancies to move employees from lower priority program areas to areas of greater mission importance. Moreover, at this point in time, we don't have visibility into the breakout between early and optional retirement eligibles among our incentive takers this year, since our centers report that data to us at the end of each fiscal year. Through 30 April, we have approved 270 incentives.

Command Force Shaping VSIP Usage:

Activity	FY01	FY02	FY03
AFRL	55	101	87
ARNOLD	0	11	2
BROOKS	0	2	10
AMARC		1	0
EDWARDS	30	25	20
EGLIN	30	61	41
HANSCOM	0	0	0
HILL	0	0	29
KIRTLAND	1	2	0
TINKER	10	13	0
WPAFB	21	146	77
Total	**147**	**362**	**270**

Work Force Challenges:

We continue to wrestle with many of the challenges outlined above. Numerous additional issues face us as well.

The **hiring process** is one area of concern. We do not fill our external positions as quickly as we need to. We need to work smarter to reduce overall fill time. Moreover, the bureaucratic requirements associated with our standard vacancy announcements, which must include reams of data, are enough to scare away all but the most determined applicants. We **need a way to streamline that document,** without facing the prospect of omitting required federal employment jargon. OPM has recently undertaken an initiative on that front, which we support. Your recent

provisions in the Homeland Security Bill, which allow us to use a **category ranking process**, should help us greatly, by allowing management to consider more than three highly qualified applicants for their positions, while preserving veterans' preference.

A **new compensation system**, based on employee contribution to mission, rather than longevity, is essential to help us motivate our workers to excel, and to reward them when they do. Two of our command activities are currently operating under Demonstration projects which include provisions for **contribution-based compensation**: the Air Force Research Laboratory operates a laboratory demo for its S&E employees; Edwards AFB participates in the Acquisition Demonstration Project. Senior managers appreciate the opportunity these systems offer to reward excellence. The Department of Defense has been developing an alternate personnel system, the **National Security Personnel System**, which includes a performance-based compensation system. Based on our reading of the recently issued Best Practices Federal Register, and the recently submitted legislation, the Defense Transformation for the 21st Century Act, the compensation system DoD envisions is different from the contribution-based systems we are familiar with. However, we welcome any system that allows us to appropriately incentivize employee contribution to mission accomplishment. Based on discussions we have held with both national and command-wide representatives within the American Federation of Government Employees, I can tell you that our union partners have expressed concern over such a system, and our ability to implement a performance based system for bargaining unit members is an open question. Our union partners have shared with us a fundamental concern that revised performance-based systems merely "rob Peter to pay Paul" unless additional resources are added to the compensation pool.

Pay banding is another initiative that we are very interested in. This provision greatly simplifies the arcane federal classification system by reducing the number of pay groups from 15 pay grades with 10 steps each to 3-4 bands that employees move through. This provision is also **included in the proposed NSPS** alternate personnel system.

Other helpful flexibilities included in the DoD legislation include the ability to hire highly qualified experts for up to 5 years and to rehire retired federal employees without requiring a salary offset to their annuity.

We continue to wrestle with the **ability of our human resources offices to remain agile service providers** as they downsize and certain work is shifted to offsite locations. Our HR staffs are key players in ensuring our workforce shaping initiatives receive the attention they deserve. We believe our **center HR providers need to be close to the leadership of our centers** as they continue to move from being process focused to becoming strategic partners who actively assist in managing our human capital requirements. We are presently looking at this organizational issue with the Air Force so we can better manage our human capital, particularly at the resource and strategic planning levels.

Impact of Future Reductions on Workforce:

There is little doubt that work force reductions are not strictly compatible with our workforce shaping efforts. Every position eliminated is a position we cannot use to refresh the force. Every separation incentive offered to create a vacancy to cover a surplus employee is a separation incentive that cannot be offered to reshape the force. The process by which the government identifies employees for adverse action when separation incentives do not yield

sufficient placements for surplus employees (*i.e.* reduction in force) unfailingly targets the most recently hired employees—effectively undoing the good we have managed to accomplish over the past few years. The decade of downsizing we underwent left us with little head room to replenish the work force and unprepared for future mission challenges. Fortunately, we have begun to remedy that situation, and your legislation to allow for force shaping separation incentives has helped immensely. The reductions we are experiencing in FY03/04 will set us back somewhat, but we believe that the future planned reductions for this command can, for the most part, be managed with minimal disruption to our work force reshaping efforts. As we become more efficient through transforming our processes and ways of doing business, we are attempting to develop an attrition strategy that balances the need to realign/reduce the workforce with the need to ensure adequate headroom exists to continue our replenishment efforts and not "undo" the progress we have made to date. If significant additional reductions are levied, however, it will be more difficult to execute our strategy effectively.

Rationale for Workforce Reductions:

The reductions are the result of complex, multiple factors that, when coupled together, required the Air Force to "balance the books" to bring its manpower levels into alignment with its funding. This is important because our authorized strength information is used for many important things. It provides the basis for determining our wartime capabilities and normal assignment actions. It also provides baseline information for determining potential savings from BRAC. If our documents are in error important decisions can be jeopardized.

After we "balance the books" we will work to realign our resources from lower priority work to high priority mission and warfighting jobs, most especially those career fields that have been

sorely stressed since the volatile events of 9/11. This will take time and it will not be easy. The Air Force Core Competency review and the PERSLOAD study will examine the stresses placed on critical career fields and identify places where we can convert jobs currently being performed by military to civilian or contractor to free up the military to work on critical military essential tasks. It is something we must do and it also provides an opportunity to shape the force of the future.

The most recent reductions for AFMC total about 2200 by FY09. We spread the original reductions across the command's installations in such a way that there should be no involuntary separations of AFMC civilians in FY03 at any location. People may be realigned from one job to another…but they will still have jobs. Some separation RIFs, already planned before these cuts, will go forward, which means there will be layoffs in specific situations, such as completed A-76 studies that have gone contract. At this time we cannot say whether civilians will be separated for the FY04 increment of the reductions. It is possible, but as I previously stated, we are exploring options for using an effective attrition strategy to mitigate the "people impacts" of the reductions.

Right now we think the civilian reduction laid in for FY03/04 is sufficient to get us to FY06 before we must assess the requirement for additional civilian reductions to the field. On the military side, we know we will need to allocate an additional reduction of about 200 to the centers beginning in FY06. These projections are based on the information we have right now. Fortunately, savings we obtain from future A-76 studies can be applied toward our reduction goal. Since future A-76 savings are projections based on historical averages, we will continue to assess the impact actual savings have on the reductions yet to be allocated to the field. AFMC is

committed to finding ways to meet these reduction challenges by finding ways to become more efficient through transforming our processes and ways of doing business. At the same time, we are trying to meet our workforce shaping goals as discussed earlier.

Proposed Policy/Legislative Changes:

Although we have recently received some much appreciated legislative relief with the passage of the Homeland Security Act, there are still additional legislative and policy changes we would like to see enacted to better enable us to manage our civilian work force. Many of the provisions we would like to see enacted are included in the Federal Workforce Flexibility Act of 2003 that you recently introduced. For example, we would like to see the additional flexibilities your bill envisions regarding the use of recruitment, retention and relocation bonuses. We believe that these options will be more useful to us with the additional flexibilities you are seeking, including the ability to structure recruitment bonuses so that they can be paid in installments or at the end of a service agreement. With the increased mobility of younger workers, it does not always make sense to offer an "up-front" bonus. A graduated or end-loaded bonus provides more incentive for employees to continue working for their current employer. The opportunity to offer larger bonuses would also be helpful, although, given the financial realities, we don't envision offering payments significantly in excess of the current 25 percent of salary limitation, except in situations where the candidate is highly sought after and possesses particularly unique skills. This is a flexibility our lab might employ for senior scientist recruitment efforts, for example.

We also support the provision in your legislation that seeks to rectify an anomaly that prevents employees retiring from a part-time position from receiving appropriate credit for full time service prior to April 7, 1986. The current situation is unfair to employees who worked full time

for the majority of their career, by treating full time service as part-time for the purpose of annuity computation. Both the Administration's Managerial Flexibility Act and the President's FY 2004 Budget included the same provision. AFMC is now experiencing a critical need to transfer knowledge to the incoming workforce, especially program knowledge in science and engineering which cannot be transferred in a short timeframe. Part time employment allows us the flexibility for special project assignments such as knowledge transfer and to structure our operations more efficiently.

We are supportive of the DoD initiative to enact a National Security Personnel System, as outlined in the Defense Transformation for the 21st Century Act. We are particularly interested in implementing a compensation system that will reward our best workers, similar to private industry standard practices, and a form of performance based pay is incorporated into the proposed DoD system. We note that you have included proposed legislation for authorizing streamlined personnel management demonstration projects. Although demonstration projects are helpful, we believe that we have had plenty of opportunity to experiment with new personnel flexibilities across the government—it is time to implement a new system. Several agencies have implemented alternate personnel systems, including the FAA and the IRS. We support a more permanent personnel make-over for DoD as well. However, we believe that the individual Services should be provided flexibility within any DoD-wide personnel system, to ensure that Service or activity specific needs are accommodated in any agency-wide proposal. In short, we need to be able to "cobble a shoe to fit our foot".

Mr. Chairman, in summary, I believe this command has made great strides in reshaping our civilian force within the constraints of today's personnel system to effectively meet the

challenges of the future, although we must continue to expend energy and attention on this critical issue. What I most need to be successful in this effort, succinctly stated, are agile HR authorities that enable us to respond quickly to dynamic mission changes and offer the tools to be competitive in the marketplace, foster expedited decision making and a personnel system that facilitates transformational changes to improve mission accomplishment. Thank you for the opportunity to share my reflections on work force shaping in the Air Force Materiel Command with you today, and for your continuing support for the defense civilian workforce. I will be pleased to respond to any questions you may have.

Air Force Materiel Command

Developing, Fielding, and Sustaining America's Aerospace Force

U.S. AIR FORCE

State of the Air Force Materiel Command Workforce

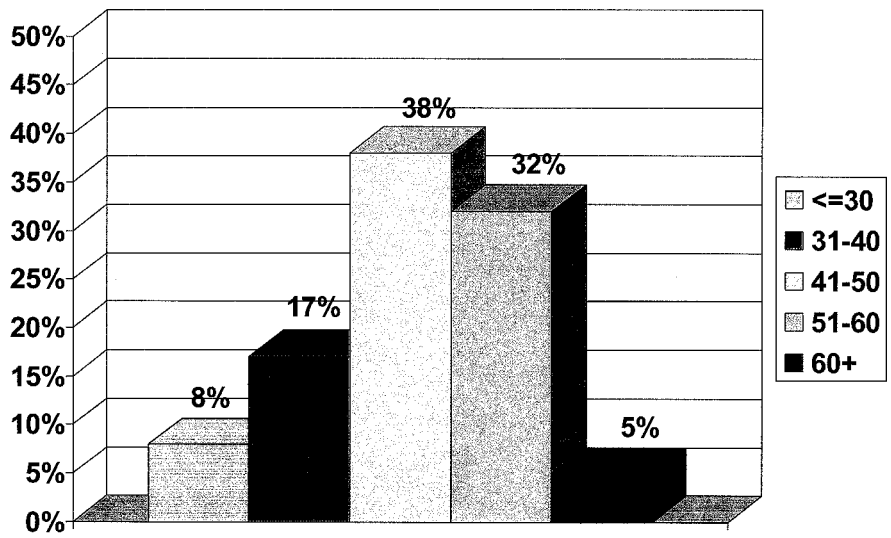
12 May 2003

General Lester L. Lyles
Commander

Integrity - Service - Excellence

Current Work Force

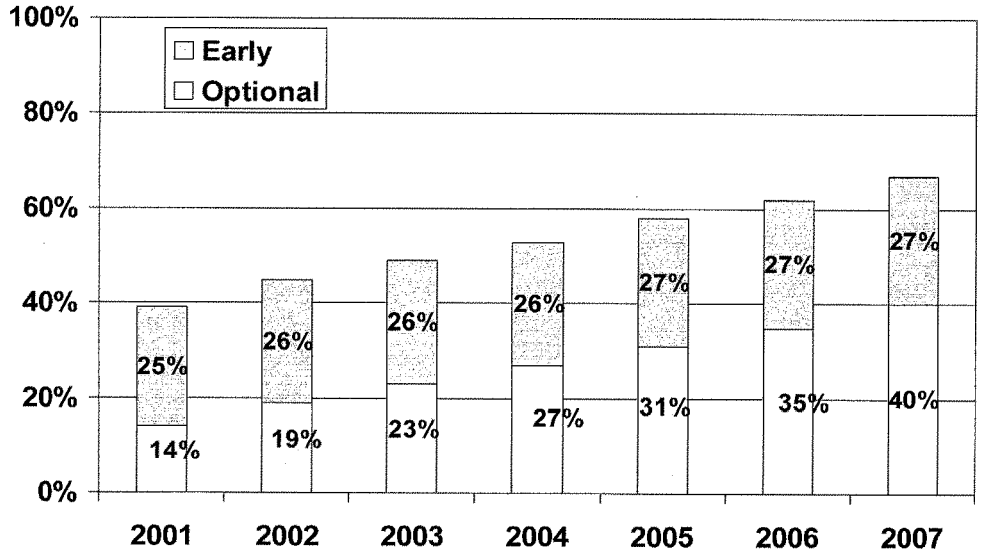
Age Categories



Data as of 07 Feb 03

Average Age: 46

Retirement Eligibles



Force Shaping Incentives

- FY 01 Defense Authorization Act:
  - Authorized 1000 incentives DoD-wide
    - AF received 284 billets
  - Authorized for optional retirement eligibles only
- FY 02 Defense Authorization Act:
  - Authorized 2000 incentives DoD-wide for FY 02
    - AF received 457 billets
  - Authorized 6000 incentives DoD-wide for FY 03
    - AF received 1404 billets
  - Authorized for optional/early retirement, resignations

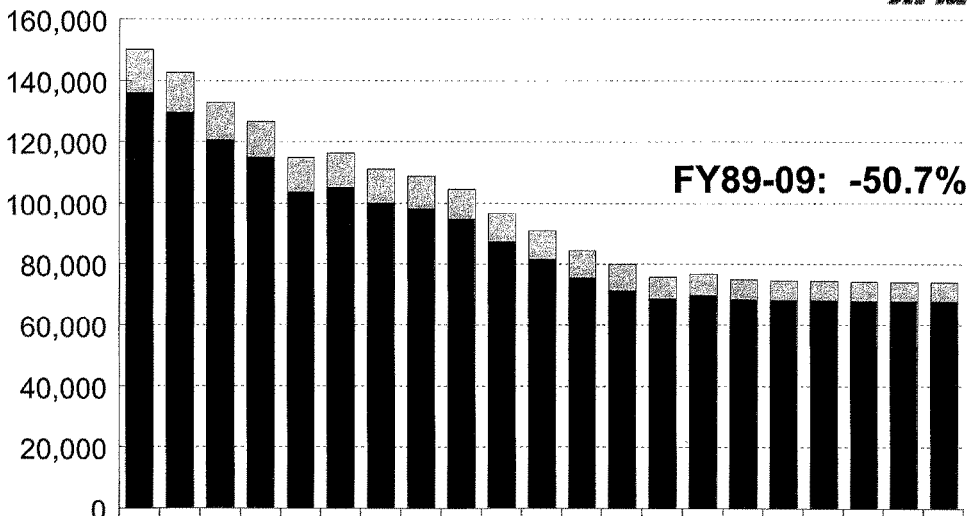
We appreciate the support of Senator Voinovich in obtaining these important authorities

Force Shaping Incentives

Activity	FY01	FY02	FY03
AFRL	55	101	87
Arnold	0	11	2
Brooks	0	2	10
AMARC	0	1	0
Edwards	30	25	20
Eglin	30	61	41
Hill	0	0	29
Kirtland	1	2	0
Tinker	10	13	0
WPAFB	21	146	77
Total	147	362	270

AFMC Manpower Authorizations FY98-09

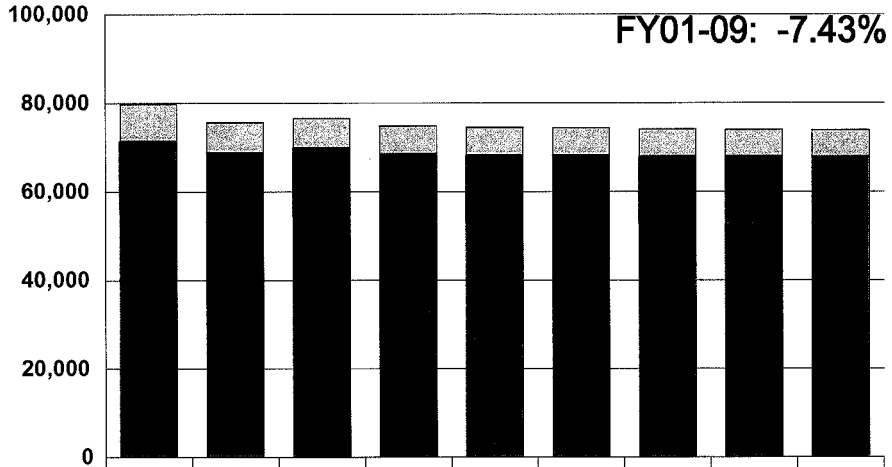
Military and Civilian As of FY 2004 PB



	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09
OFFICERS	13,968	13,152	12,289	11,538	11,158	11,126	11,077	10,682	9,894	9,351	9,319	8,609	8,487	7,000	6,856	6,501	6,400	6,372	6,305	6,200	6,112
ENLISTED	22,054	21,785	22,456	21,669	22,815	24,685	24,657	23,902	23,475	20,949	20,051	17,277	15,291	15,527	15,363	15,238	15,154	15,189	15,188	15,102	15,065
CIVILIANS	114,046	107,626	98,148	93,236	80,770	80,322	75,294	74,299	71,087	66,325	61,473	58,250	56,141	53,248	54,519	53,236	53,079	52,965	52,765	52,813	52,807
TOTAL	150,068	142,563	132,893	126,445	114,743	116,133	111,028	108,783	104,456	96,625	90,843	84,336	79,919	75,775	76,738	74,975	74,633	74,526	74,258	74,115	73,984

SOURCES: 89-92=CMDS, 93 =FY95 PB, 94=FY96 PB, 95=FY97 PB , 96=FY98 PB, 97=FY99 PB, 98=FY00 PB, 99 & 00=FY01 PB, 01=FY02 PB, 02=FY03 PB, 03-09=FY04 PB

AFMC Manpower Authorizations FY01-09
Military and Civilian As of FY 2004 PB



	01	02	03	04	05	06	07	08	09
OFFICERS	8,487	7,000	6,856	6,501	6,400	6,372	6,305	6,200	6,112
ENLISTED	15,291	15,527	15,363	15,238	15,154	15,189	15,188	15,102	15,065
CIVILIANS	56,141	53,248	54,519	53,236	53,079	52,965	52,765	52,813	52,807
TOTAL	79,919	75,775	76,738	74,975	74,633	74,526	74,258	74,115	73,984

SOURCES: 01=FY02 PB, 02=FY03 PB, 03-09=FY04 PB

National Security Personnel System

AFMC

- Most valuable features:
  - Enhanced hiring authorities
  - Pay banding
  - Performance based pay
- Service flexibilities also beneficial

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

UNITED STATES SENATE

SUBJECT: "An Overlooked Asset: The Defense Civilian Workforce"

STATEMENT OF: DR. VINCENT J. RUSSO
EXEC DIRECTOR, AERONAUTICAL SYSTEMS CENTER
UNITED STATES AIR FORCE

12 MAY 2003

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BY THE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
UNITED STATES SENATE

Mr. Chairman and distinguished guests, thank you for the opportunity to address issues regarding the Wright-Patterson Air Force Base (WPAFB) civilian workforce.

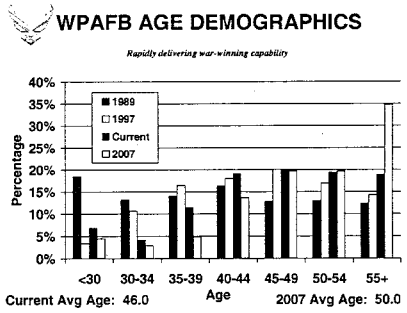
Background

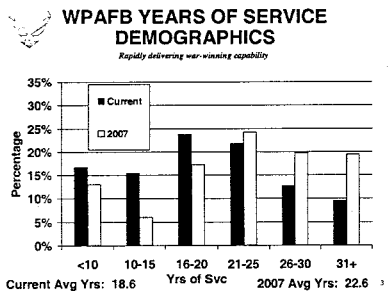
WPAFB presently employs over 10,000 government civilian employees serviced by our Civilian Personnel Office (CPO). Of course, there are additional civilians on base (Non-Appropriated Fund (NAF) employees, other government employees, contractors, bank employees, etc.) that the CPO does not service. Additionally, there are over 5,000 military members. The Aeronautical Systems Center (ASC) is the host organization and has 4,501 government civilian employees and 2,960 military assigned to WPAFB. In addition, some of the other major tenant organizations located at WPAFB are the Air Force Research Laboratory (AFRL) with 1,749 government civilian employees, Headquarters Air Force Materiel Command with 1,069 government civilian employees, the National Air Intelligence Center (NAIC) with 981 government civilian employees, the Materiel Systems Group (MSG) with 458 government civilian employees, the 445th Airlift Wing with 377 government civilian employees, the Air Force Security Assistance Center (AFSAC) with 321 government civilian employees, and the Air Force Institute of Technology (AFIT) with 236 government civilian employees. Our workforce at WPAFB is highly educated with over three-fourths of our civilian employees having attended college and over 50 percent having at least a bachelor's degree. Looking at ASC's acquisition workforce, over 90 percent have attended college, with 80 percent having at least a bachelor's degree and almost 45 percent having advanced degrees.

It's a well-known fact that human capital management is now a concern for most government agencies. This includes WPAFB. In September 1989, the WPAFB civilian workforce totaled 17,138, compared to 10,136 today, over a forty percent reduction in civilian strength. In 1989, prior to the drawdown of the nineties, our age and years of service demographics at WPAFB were relatively evenly distributed. Normal attrition generated 30 percent turnover of the workforce every five years. This offered ample opportunity to refresh the workforce with fully trained employees possessing updated technological skills. The 1990s were a period of significant human resource challenges to WPAFB and ASC. Our ability to hire was severely restricted due to the decade of downsizing, which resulted in significant skewing of our age and service demographics. In order to minimize involuntary separations, vacancies were cancelled or used to place employees being adversely impacted by reductions-in-force (RIF) and, as such, restricted the number of new employees entering into the WPAFB and ASC workforce. This led to a significant drop in the number of employees under thirty years of age at WPAFB and increased the number of employees over forty years of age.

OVERALL STATUS OF THE CIVILIAN WORKFORCE AT WPAFB

For the most part, the state of our Wright Patterson AFB workforce is very similar to that of the other Product and Test Centers within Air Force Materiel Command, the Air Force, and most of the Federal Government. In 1997, we started actively publicizing our demographic problem and the need for assistance in workforce shaping efforts, and we participated in our Command's work force shaping study, which was published in April 2000. As you can see in the charts below, our current and projected demographics continue to skew to the right with a slight increase in the number of employees in the under-30 age bracket. Based on the data below, the average age of our civilian employees at WPAFB is presently 46 and is expected to grow to 50 in 2007, while the years of service for these same employees presently average 18.6 and will grow to 22.6 in 2007. Presently, 35 percent of the WPAFB workforce is eligible to retire today (over 38 percent of our acquisition workforce); and, without effective workforce shaping, this will increase to over 55 percent of the WPAFB workforce (over 58% of the acquisition workforce) by 2007. This, alone, will have serious mission impact. Moreover, retirement of our trained employees without workforce revitalization will erode our corporate knowledge base and threatens our ability to effectively accomplish our missions.





PROGRESS IN USING RECENT WORKFORCE SHAPING AUTHORITIES

Congress, particularly the Ohio delegation, has recognized the importance of workforce shaping and worked hard to provide legislation to that effect. The Wright-Pat community certainly appreciates the strong support of Senator Voinovich and his staff in supporting workforce shaping legislation, as well as other personnel flexibilities, in the past few years.

The chart below shows the total number of workforce shaping incentives that activities serviced by the CPO at WPAFB have been able to approve in FY01, FY02, and FY03 under the workforce shaping provisions in the defense authorization bills. This total includes the civilian employees duty located at Newark, Ohio. In addition, the chart shows the number of civilian employees that ASC was able to approve using this authority. (Note, since the CPO services AFRL employees located at WPAFB and non-AFMC activities, the totals reflected here will not match the AFMC WPAFB totals).

WORKFORCE SHAPING APPROVALS

Rapidly delivering war-winning capability

	WPAFB	ASC
FY01	43	14
FY02	198	76
FY03	124	11

When workforce shaping was initiated in FY01, it was limited to employees eligible for optional retirement. In FY02 and FY03, the incentives could be offered to employees eligible for early

retirement as well as optional retirement. In addition, in FY02 we were authorized to use daisy chain. This accounts for the larger number of incentives approved in FY02.

The following are some examples of how major organizations at WPAFB used workforce shaping legislation to revitalize their workforce and adjust skills mix in a variety of occupations: a psychologist position reshaped to an engineering position, a mathematician position reshaped to an electronics engineer, a physicist position reshaped to a materials engineer, journey level financial and contracting positions reshaped to trainee positions, and journey level information technology positions reshaped to entry level positions to bring in trainees with the most current educational background and up-to-date skills.

As you know, Senator, we strongly supported your efforts for workforce shaping legislation and we look forward to being able to take full advantage of the law in the future. In addition, we have taken the following initiatives to complement your legislative efforts and help alleviate some of our demographic imbalance.

We are visiting at least 40 colleges and universities per year targeting scientist, engineering, business, and medical fields. We recruit nationally, including the Historically Black Colleges and Universities (HBCUs) and the University of Puerto Rico, to attract and retain a diverse pool of applicants. Since 1999, we have reinvigorated our Co-Op Program and tripled the number of students employed; over 150 co-op students are now employed.

We are actively leveraging existing authorities by extensive use of recruitment/retention bonuses and payment of relocation expenses in our recruiting programs. At the journey level, the ability to adjust the salary to a higher step using the Superior Qualification appointment authority has helped us compete with private industry.

In anticipation of increased hiring, ASC established a Retention Center to address retention issues of our employees. Initiatives included distribution of new employee brochures, creation of a web site for new employees, and provision of information on retention for supervisors. In addition, we facilitate quarterly informational seminars for our junior workforce concerning career programs and training and education programs that provide networking opportunities to build relationships with each other. Our goal is to assure we retain those that we hire.

We have also designed and implemented diversity training for all WPAFB employees, which will ensure we have a work environment where awareness, acceptance, and effective inclusion of human differences will enhance accomplishment of the mission.

In addition to our robust participation in AFIT's programs, leadership training is provided to supervisors highlighting the six characteristics of an effective leader: challenge the process, inspire a shared vision, enable others to act, model the way, encourage the heart, and have fun. We have also established two on-base masters programs, one leading to an MBA through the University of Cincinnati and the other to an advanced engineering degree through the University of Dayton.

We are also taking advantage of using AF centrally funded trainees in engineering and business career fields. Upon completion of their training, we plan to put them on our vacant positions. Because of the emphasis on workforce shaping by you, Mr. Chairman, and senior WPAFB managers, we are finding that when organizations have headroom they are focusing on hiring trainees/journey level to meet future human capital needs.

IMPACT OF PROPOSED REDUCTIONS ON CIVILIAN WORKFORCE AND RATIONALE BEHIND SUCH REDUCTIONS

We will do what we have done in previous years: use vacancies, attrition, and the RIF avoidance incentive to mitigate adverse impacts of the reductions. These tools have worked for us in the past and we are confident they will help us lessen any adverse impact on employees that may otherwise occur as a result of future reductions. However, my previous charts on demographics showed the impact of the use of these tools. We anticipate some reduction in civilian employee strength at WPAFB, with the largest number of reductions in ASC. At the same time, we project ASC will continue to see an increase in the dollar volume of work sent our way. The only WPAFB organization that we see with significant growth of civilian employees is AFIT.

As we become more efficient through transforming our processes and ways of doing business, our Command as a whole is attempting to develop an attrition strategy that balances the need to realign/reduce the workforce with the need to ensure adequate headroom exists to continue our replenishment efforts and not "undo" the progress we have made to date. Further reductions could limit additional progress and possibly reverse what we have already accomplished. In the worst case scenario, we may end up separating the trainees and junior journey level employees

we've hired in recent years – the very people currently being trained to carry on the complex and important work accomplished at WPAFB. Realizing they may be the first to leave, our junior employees are concerned about reduction "talk" and are already thinking about career options outside the government. In addition to impacting our ability to retain good employees, the reductions hamper our ability to recruit the best and brightest into our workforce. Potential employees are starting to question why they should seek employment with an organization that is seemingly headed back toward the downsizing path. In fact, several employment offers were declined because of reduction publicity. At the same time, it is imperative that we manage the exodus of retirement eligible employees so we can hire new employees while experienced people are still here to train them. However, further reductions will reduce the flexibility we have to pursue meaningful workforce shaping initiatives.

The reasons for future reductions at WPAFB vary. Some of our activities have programmatic reductions already on their manpower books that have been planned for a long period of time. For example, in the FY01 APOM, ASC projected reengineering savings in its acquisition workforce to provide funding for technology enhancements that would allow the Center to perform its primary mission more efficiently. The recent Air Force reductions are the result of complex, multiple factors that, when coupled together, required the Air Force to "balance the books" to bring its manpower levels into alignment with its funding. Also, the events of 9-11 created world changes that generated additional manpower requirements for high priority missions. The Air Force must now realign resources from lower priority to higher priority missions, e.g., special operations and force protection.

These reasons are based on information we have right now. However, future WPAFB manning levels may fluctuate based on the re-competing of our existing Most Efficient Organizations (MEOs), changes to mission requirements that require skills balancing, or other unknown circumstances.

CHANGES IN POLICY OR LAW THAT WOULD ENHANCE OUR ABILITY TO MANAGE OUR CIVILIAN WORKFORCE

Although the passage of the Homeland Security Act has provided some legislative relief, additional legislative and policy changes are needed to better enable us to manage our civilian workforce.

The legislation that you recently introduced, the Federal Workforce Flexibility Act of 2003, includes many of these provisions, such as the flexibilities that your bill provides regarding the use of recruitment, retention, and relocation bonuses. The ability to structure recruitment bonuses so that they can be paid in installments or at the end of a service agreement, the opportunity to offer larger bonuses, and the ability to offer retention allowances to employees to prevent them from accepting other federal employment will, I believe, be helpful to the WPAFB community. We also support the provision in your legislation that seeks to rectify an anomaly that prevents employees retiring from a part-time position from receiving appropriate credit for full time service prior to April 7, 1986. The current situation is unfair to employees who worked full time for the majority of their career, i.e., their full time service is credited using an average salary in the annuity computation that is adversely affected by the part-time service.

We are also supportive of a totally new personnel system. Agencies need to have pay banding, hiring flexibility, and a performance/contribution-based compensation system that will reward our best workers. Although the implementation details of the National Security Personnel System (NSPS) outlined in the Defense Transformation for the 21st Century Act have not be finalized, we hope this legislation will provide many of the changes we need for a more effective personnel system. I want to stress that the individual services should be provided the maximum flexibility within any DoD-wide personnel system to ensure that service or activity-specific needs are accommodated. For your information, we did request authority to implement the Acquisition Demonstration Project for our non-bargaining unit employees in most AFMC organizations located at WPAFB. Although our request was forwarded from Air Force to DoD, it is our understanding that approval is held up pending legislation.

One of my biggest concerns is that the current hiring authority is cumbersome, slow, and difficult for candidates to understand. Speed is very critical to the hiring process. In addition, in order to ensure we receive a return on our investment in recruiting efforts, we need a process that ensures that the highly capable individuals we identify during recruiting are reachable for employment. A categorical ranking system to replace the "rule of three" should help accomplish these objectives.

Mr. Chairman, I hope you share with me the tremendous pride of accomplishment of all the employees at WPAFB. Everyday, we strive to make our best contribution to the Air Force. We are "powered by" our vision of maintaining a "warrior's spirit" to help defend our great country.

In summary, Mr. Chairman, I would like to thank you for the opportunity to share my views with you. I assure you that we are doing all we can to address civilian workforce issues at WPAFB. With your continued support, I am confident we will continue to progress in this area. I will be very pleased to respond to any questions you may have.

Aeronautical Systems Center

Rapidly delivering war-winning capability

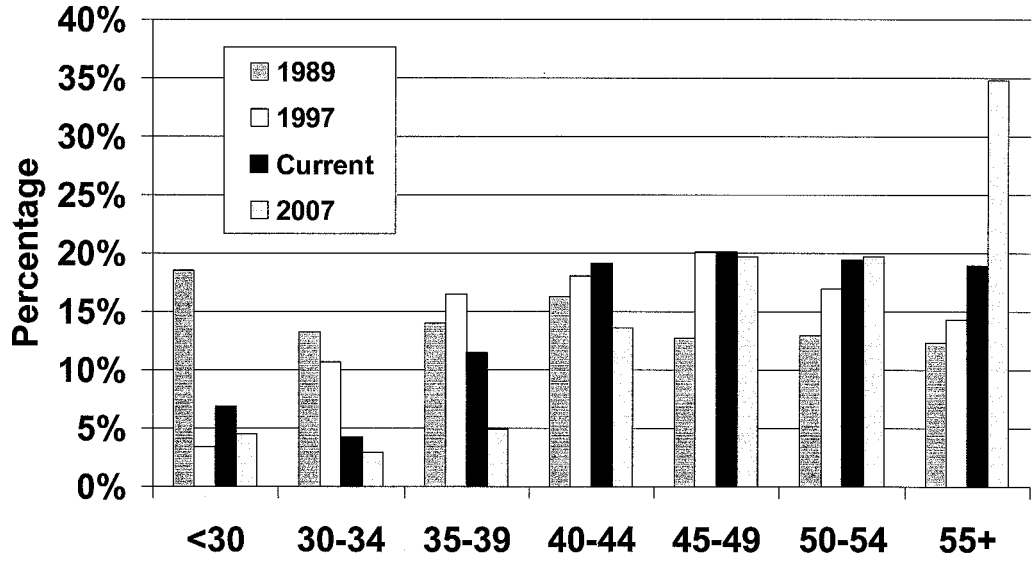
State of the Wright-Patterson Air Force Base Workforce

12 May 03

Dr. Vincent J. Russo
Executive Director

WPAFB AGE DEMOGRAPHICS

Rapidly delivering war-winning capability



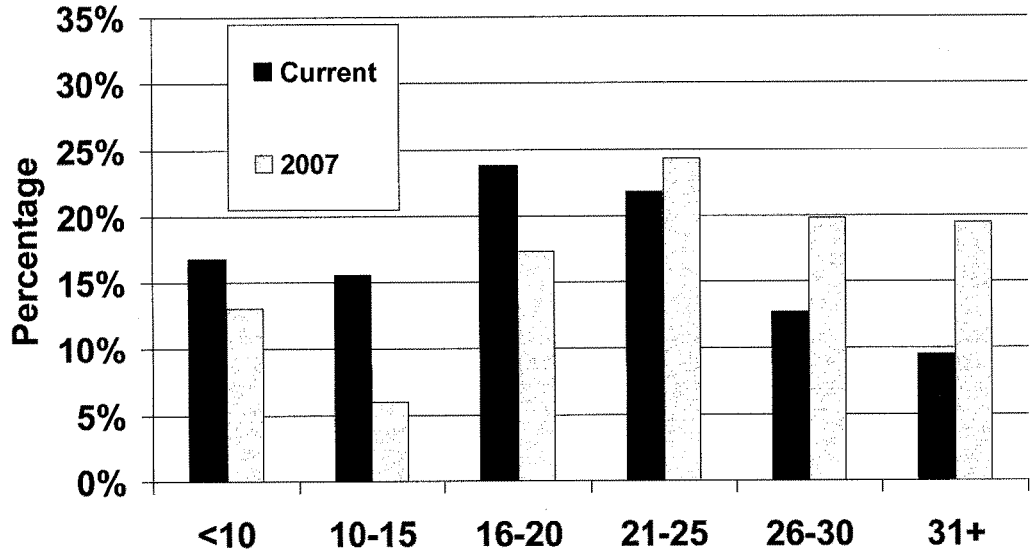
Current Avg Age: 46.0

2007 Avg Age: 50.0

2

WPAFB YEARS OF SERVICE DEMOGRAPHICS

Rapidly delivering war-winning capability



Current Avg Yrs: 18.6

2007 Avg Yrs: 22.6

WORKFORCE SHAPING APPROVALS

Rapidly delivering war-winning capability

	WPAFB	ASC
FY01	43	14
FY02	198	76
FY03	124	11

As of 10 Apr 03

Local Initiatives

Rapidly delivering war-winning capability

- **Revitalized recruitment program**
  - **Visit 40 colleges a year**
  - **Tripled the number of Co-Op Students**

- **Focus on retention**
  - **Established "retention center" for junior enlisted, officers and civilians**
  - **Increased communication with junior workforce**
  - **Providing diversity training**
  - **Supervisor's Forums**

Local Initiatives

Rapidly delivering war-winning capability

- Implemented Leadership Symposium
- On-base Masters Programs
  - Engineering
  - Business administration

T E S T I M O N Y

RAND

The Defense Civilian Workforce: Insights from Research

Beth J. Asch
Senior Economist

May 12, 2003

United States Senate
Committee on Governmental Affairs
Subcommittee on Oversight of Government Management, Restructuring and the District of Colombia

This statement is based on a variety of sources, including research conducted at RAND. However, the opinions and conclusions expressed are those of the author and should not be interpreted as representing those of RAND or any of the agencies or others sponsoring its research.

RAND is a nonprofit institution that helps improve policy and decisionmaking through research and analysis.

Mr. Chairman, I am pleased to be here today to provide input on civilian workforce management in the Department of Defense (DoD). In my statement, I will first summarize RAND's research on the effects of civil service workforce shaping tools on the retirement behavior of defense civilian employees. Next I will discuss the infrequent usage of these tools, and provide other evidence on the performance of the civil service personnel system in terms of its processes and their effects on defense civilian workforce outcomes such as retention. I will then describe the workforce challenges facing the DoD that have become more prominent in the new post-September 11 national security environment. These challenges increase the urgency of addressing problem areas in DoD civilian management. I conclude by identifying the criteria that define an effective human resource system in any organization, and discuss some steps that could be taken by policy makers to help ensure that the DoD's personnel system meets those criteria.

Research Shows that Workforce-Shaping Tools Could Have Significant Effects on Retirement Behavior

Our research estimated the effects of workforce shaping policies on the probability of retirement (Asch, Haider, Zissimopoulos, 2003). These policies are the special voluntary separation incentive program also known as the VSIP or "buyout," the voluntary early retirement authority also known as VERA or early retirement option, and finally the retention allowance. The first two programs are intended to increase the financial incentive to voluntarily leave while the third is intended to increase the financial incentive to stay in the civil service.

Both VSIP and VERA were used during the 1990s by federal agencies to reduce federal employment. These programs induced voluntary separations among workers who would otherwise have been involuntarily separated because they worked in organizations that were identified for possible downsizing. Between 1993 and 1999, the DoD paid about 141,000 VSIP buyouts to its civilian employees to support its post-cold war drawdown. More recently both VSIP and VERA have been identified as tools to help federal managers "shape" the experience and skill mixes of their workforces (U.S. Office of Personnel Management, 2001). By providing federal workers with an incentive to retire early or separate, it is hoped that managers will be better able to hire or possibly outsource replacement workers with different skills or experience levels.

A key question is whether these flexibility-related tools are effective. Our study finds that, if used, these tools could be highly effective in changing retirement and separation behavior.

The study focused on DoD civilian employees age 50 and older who participate in the Civil Service Retirement System or CSRS. We first estimated the effects of the retention allowance on the decision to continue in the civil service rather than retire (Asch, Haider, and Zissimopolous, 2003). Understanding the effects of retention allowances is important because they could be used to induce personnel in critical areas and in key leadership positions to delay retirement thereby helping the DoD to manage the transfer of expertise from retiring employees to their replacements. The study found a large effect of retention allowances--offering to older workers the maximum retention allowance of 25 percent of pay over the rest of their career would reduce the probability that an individual will retire by about 20 percent. The early retirement option was estimated to more than double the separation and retirement rates from the civil service among those who would be eligible for that benefit. The buyout was estimated to increase separations and retirements by about 30 to 40 percent, depending on age. Again, the estimated effects are sizable.[1]

Although financial incentives are not the only reason civilian employees stay or leave, the finding that defense employees respond to financial incentives is not entirely surprising. Available evidence indicates that civil service personnel quit rates have responded strongly to pay changes in the past. For example, a 1990 study (Black, Moffitt, and Warner, 1990) found that a 10 percent change in civil service pay would change civil service quit rates in DoD by 9.3 percent among technical workers and by 4.3 percent among administrative workers.

Authority for Some Flexibility-Related Tools is Limited, Others are Not Widely Used

So far, the authority for buyouts and early retirement for workforce shaping purposes has been limited in the DoD. The National Defense Authorization Act (NDAA) for FY 2001 permitted the DoD to use buyouts in conjunction with optional retirement, even without downsizing. Eligibility for both early and optional retirement is based on age and years of service. The NDAA for FY 2002 expanded this authority to use buyouts in conjunction with either early retirement or with resignations, in addition to optional retirement. However, the law restricted the use of buyouts to 2,000 employees in FY 2002 and to 6,000 in FY 2003.

[1] Two points are noteworthy. First, these estimates are not assessments of the past success of VERA and VSIP as tools to accomplish downsizing in the aftermath of the cold war. We explicitly excluded from our data analysis those individuals who received VERA or VSIP during the defense drawdown in the 1990s. Including them would have caused us to overestimate the effect of financial incentives on voluntary retirement or separation because workers who did not take the VERA or VSIP offer during the drawdown were likely to be involuntarily separated at a later date. To arrive at our estimates, we studied how defense civilians respond to the financial incentives embedded in CSRS in general and then simulated how their retirement behavior would change if offered these incentives. Second, our study did not consider the cost of offering these workforce-shaping incentives. Consequently we cannot draw any conclusions about their cost-effectiveness.

Given that the DoD had about 290,000 employees eligible for early retirement and another 107,000 eligible for optional retirement (U.S. Office of Personnel Management, July 2001), these authorities are quite small relative to the size of the defense civilian workforce that is the target population for the use of these tools.

Available evidence also suggests that retention allowances have not been widely used in the past. The OPM estimated that retention allowances were given to less than one percent of Executive Branch employees, including DoD, in 1998 (U.S. Office of Personnel Management, 1999). The OPM study also looked at recruitment and relocation incentives. These three incentives (recruitment, retention, and relocation, or what have been dubbed the "3Rs") are intended to create a more flexibly managed civil service (U.S. Office of Personnel Management, 1999). Although the use of these three incentives was 17 times greater in 1998 than it was in 1992, the fraction of employees getting them was still negligible. The study found that only 0.14 percent of all Executive Branch employees received 3R incentives in 1998. Recruitment bonuses were given to only 0.3 percent of all new hires and relocation bonuses were given to only 1 percent of employees making geographic moves in that year.

Why don't civil service managers use the flexibility-related pays that are available to them? A few reasons have been put forward. The 1999 OPM report contends that the primary reasons for the limited use of the 3Rs were a lack of funds, limited recruiting due to government downsizing during the period of examination, and relatively little need in some agencies for such incentives. The OPM report also stated that the authority to approve the usage of these tools tended to reside at high levels of the hierarchy within different organizations and the burden of justifying the use of such incentives seemed to have discouraged some lower-level managers from requesting 3R usage. This latter reason was echoed by the 2002 Naval Research Advisory Committee report on personnel management in the defense science and technology community. That report stated that significant organization resistance has hindered reform of the personnel systems in the defense laboratories. It also noted that in the absence of sustained high-level commitment to use flexibility-related tools aggressively, most of those tools have gone unused or underutilized (Assistant Secretary of the Navy, 2002).

Some Aspects of the Civil Service System Are Rigid and Cumbersome

Civil service compensation, classification, promotion and staffing policies in the federal civil service are well defined in Title 5 of the U.S. Code. The published pay tables and the detailed processes for defining jobs promote clarity, openness, and predictability. However, such rules have also produced a rigid system that embeds some overly bureaucratic processes.

Statistics and anecdotal evidence show that civil service recruiting and firing processes have, indeed, become cumbersome at best and dysfunctional at worst, and that the civil service pay system is rigid and unresponsive to performance differences and external market conditions. Problems with the pay system, advancement, training, and the hiring process were discussed in the 1990 Volcker Commission report (Volcker, 1990) and more recently by the Defense Science Board Task Force on Human Resources Strategy (2000), the Naval Research Advisory Committee report (2002), and the National Commission on the Public Service (2003). Furthermore OPM recently reported that more than 75 percent of the increase in annual federal pay bears no relationship to individual achievement or competence (James, 2002). The 2001 survey conducted by the Brookings Institution found that most federal employees called the hiring process slow and confusing, a quarter called it unfair, and more than two-thirds said the federal government was not good at disciplining bad performance (Light, 2001). Stories abound of the long delays, often lasting months, in recruiting new personnel and the inability of personnel managers to fire poor performers. The Director of OPM has called the General Schedule pay system an antiquated one-size-fits-all system that overly compresses pay as a result of an emphasis on internal pay equity rather than competitiveness (James, 2002).

The Civil Service System Has Worked in Some Respects in the DoD in the Past

One way to assess how well an HR system serves to attract and retain high-quality personnel and to meet other strategic HR goals is to examine workforce outcomes. Measured in terms of such outcomes as the recruitment, retention, promotion, and pay of *high-quality* personnel, the civil service system has had a degree of success in the DoD. What evidence is available suggests that the system has produced some desirable personnel outcomes in the past, despite its rigidities.

A 2001 DoD-sponsored RAND study of the pay, promotion, and retention of GS civil service workers in the DoD found that personnel managers are using the civil service system in such a way as to produce generally desirable outcomes (Asch, 2001). For example, the analysis found that higher-quality personnel, measured in terms of supervisor rating and education level, are generally paid more and promoted faster in the DoD, holding constant employment factors such as occupation, grade, years of service, location, and function, and demographic factors such as gender and age. The study found considerable variation in the pay and promotion patterns of personnel in different occupations in DoD, suggesting that managers are able to use the common pay table to achieve different pay outcomes in different occupations.

The study also found that better-quality defense workers, in terms of supervisor performance ratings, also had better retention, holding other factors constant. The one area of concern regarded employees with the most advanced degrees, such as a master's or doctorate degree. They were paid more, all else being equal, including occupation. But, the study also found that those employees tended to be promoted somewhat more slowly than those with only a bachelor's degree and in some cases had poorer retention, holding all else equal, including entry grade and occupation.

A related study (Gibbs, 2001) examined the workforce outcomes of scientists and engineers who work in laboratories in the DoD, a group that has many individuals with advanced degrees. The study found that the financial gains associated with greater skills and responsibility, as measured by the difference in pay across grades, remained about the same from 1982 to 1996. In marked contrast, in the private sector the pay differential for the greater skill and responsibility among engineers rose over that same time period. This difference in the wage structure of federal versus private sector workers was also documented by Katz and Kreuger (1991) using data covering all federal workers. Nonetheless, the Gibbs study found little evidence that the DoD suffered a decline in the quality of the workforce being studied. Furthermore, the quality and performance of new hires to that workforce, relative to earlier groups of new hires, and the quality and performance of employees who were retained, relative to those who had left, remained stable.

Similar results were found in an earlier study of defense workers. A 1990 DoD study of the quality of civilian workers who had quit the DoD found no evidence that higher-quality employees, measured in terms of their SAT scores, were more likely to leave the DoD than other civilian employees (U.S. Department of Defense, 1990). Earlier studies of all federal workers, not just those in the DoD, also indicate that the system generates some desirable outcomes. A 1980 study of federal pay levels (Borjas, 1980) found substantial wage differentials across agencies in the federal government despite the so-called rigid pay table. A 1995 study comparing federal and private-sector hiring in the 1980s found that the federal government was able to attract high-quality entrants relative to the private sector (Crewson, 1995). Personnel quality was measured in terms of aptitude test scores.

What factors have afforded these favorable civil service workforce outcomes in the past? A list of possible explanations includes the following:

- *Federal pay historically has been on par with private sector pay.* Official measures of the so-called "pay gap" show that federal pay grew more slowly than private-sector pay from the mid-1970s to mid-1990s, for similar jobs (Congressional Budget Office, 1997). However, another approach is to compare individuals with similar "human capital" such as age, education and occupation. Early studies using the human capital approach found that the pay of federal workers actually exceeded that of private sector workers with similar characteristics, broadly defined (Smith, 1976; Gyourko and Tracy, 1988; Krueger, 1988). More recent comparisons that use more detailed

information about individuals' human capital characteristics find that federal employees are neither overpaid nor underpaid relative to similar private sector workers (Moulton, 1990; Congressional Budget Office, 1997).

- *High quality and skilled civil service employees may enter and stay in federal employment because of the nature of their work and the desire to serve the public.* Such attitudes would make their behavior relatively insensitive to financial incentives.

- *Strong incentives to stay in the civil service until retirement eligibility is reached are embedded in both the CSRS and the Federal Employees Retirement System (FERS).* Those who leave before they are eligible to retire under either retirement system incur a large financial loss in the value of their expected retirement benefits (Asch and Warner, 1998). The pull of the retirement system is greater for higher-quality workers, if they are paid more and promoted faster over their career than for lesser-quality workers, because the value of the expected retirement benefit increases with one's pay. Additionally, higher-paid workers covered by FERS are more likely to contribute to its Thrift Savings Plan. Therefore, higher-quality workers may be less likely to leave the civil service than lower-quality workers because they are paid more than lower-quality workers and both FERS and CSRS have a stronger effect for them.

System May Not Work Well Enough

The fact that some outcomes are better among higher-quality employees does not mean that *enough* higher-quality employees are being recruited and retained. That is, the recruitment and retention of higher quality civilian personnel may not have been high enough, given the DoD's requirements for such personnel. Unfortunately, until recently, most organizations in the DoD lacked workforce plans, so they did not have an explicitly stated requirement for high-quality workers. Consequently, there is no benchmark by which to compare whether the supply of high-quality workers meets the requirement. The better retention of high-quality workers found in past research may or may not be sufficient relative to the requirement for such workers.

Finally, the defense civilian workforce and its missions are undergoing changes as a result of demographic shifts and the new post-September 11 national security environment. The effects of these changes are uncertain and positive outcomes of the past may not persist into the future.

Evidence is Mixed on the Success of Civil Service Waiver Experiments

Several federal organizations as well as parts of DoD have been able to waive, either partially or fully, civil service rules defined by Title 5 of the U.S. Code, and have, therefore, had the opportunity to develop their own HR systems. The organizations include the U.S. Postal Service, the Central Intelligence Agency, the Library of Congress, the Federal Reserve Board, the Federal Aviation Administration and other federal agencies. Within the DoD,

they include the demonstration projects at the Naval Air Warfare Center in China Lake, California. About half of federal employees are in these exempt organizations (U.S. Office of Personnel Management, 1998a).

Past study and review panels have consistently recommended that the DoD pursue additional waivers for the defense workforce. Evidence on the success of these waivers provides some insight into this approach to civil service reform. The available evidence indicates that civil service waivers have had mixed results in terms of producing better workforce outcomes or substantially better personnel processes. This doesn't mean that different civil service personnel systems don't work, just that the scope and implementation of the waiver experiments may have been limited.

In a 1998 OPM study of the personnel practices and policies in organizations that are partially or fully exempt from Title 5, the OPM noted the following:

> "We started the study with the working hypothesis that there would be substantial differences in the HRM [Human Resource Management] systems of non-Title 5 organizations compared with Title 5 agencies. In general, we found that the actual systems differences are important *but more limited than anticipated.*" (italics added) (OPM, 1998).

The study found few differences in the recruitment, hiring, and promotion practices of exempt organizations that supposedly had more flexibility than those that were not exempt. A notable exception was the absence of preferential employment and hiring practices for veterans and the so-called "rule of three" in hiring that gives preference to the top three eligible candidates certified by the OPM. Although exempt organizations had the ability to hire people on the spot, even without announcing a vacancy, the study found that such flexibility was limited by concerns about merit, collective bargaining agreements, and other constraints. The study also found that the exempt organizations continued to incorporate the merit system principle or other merit-based organizational values.

The study found differences in the classification and compensation systems used by exempt and non-exempt organizations. Several exempt organizations developed their own classification systems and pay systems that included pay-for-performance, broad bands, and other forms of variable pay. Whether these systems produce improved outcomes in terms of worker morale, recruiting and retention of high-quality personnel, and better performance is still an open question. On the other hand, one notable finding was that 5 of the 37 exempt organizations studied by OPM continued to follow Title 5 for personnel classification and compensation because it was easier than establishing their own system.

Evaluations of experimental pay systems developed to introduce greater flexibility in personnel management show mixed effects on workforce outcomes. The Gibbs (2001) study of DoD laboratory scientists and engineers found no evidence that these other pay plans

provided greater flexibility in workforce management. It measured the same outcomes for employees who were under the traditional civil service general schedule pay system as for those who participated in the China Lake demonstration project and in the Performance Management Recognition System. This latter plan was used in the late 1980s and early 1990s, covered all GS-13 to GS-15 workers throughout the civil service, and altered how within-grade pay increases were determined.

In contrast, evidence provided by the OPM suggests that waiving Title 5 requirements has resulted in improved outcomes in some of the demonstration projects, including those that cover scientists and engineers in the DoD. For example, OPM found that starting pay was higher, pay raises were larger for more highly rated employees, and turnover of workers with better ratings was lower for federal employees at China Lake relative to a control laboratory that was not a demonstration project. (U.S. Office of Personnel Management, 1988, 1991). Similar results have been found for the National Institute of Standards (NIST) demonstration project (Rosenthal, et. al., 1991).

Still other evidence provides a more negative picture of the effects of these personnel demonstration projects in DoD. The Naval Research Advisory Committee report on the defense science and technology community reviewed studies of these demonstration projects at various defense laboratories (2002). It concluded that the results of these projects could have been much better than they were and that many of the most promising or innovative initiatives to improve the civil service system were dropped due to problems in getting organizational approval.

Workforce Challenges Facing DoD

Successful management of the defense civilian workforce has become even more important, not only because of the changing national security environment and the war on terrorism, but also because of personnel challenges that are looming on the horizon.

A major shift is occurring in the demographics of the defense civilian workforce. According to Defense Manpower Data Center statistics, about half of this workforce was over age 40 in 1985. In 2001, about 75 percent were over the age of 40 and about a third of civilian defense employees were over age 50. Although the working population in the U.S. as a whole has also aged, it is still relatively young compared to the federal civilian workforce. Thus, in 1999, only about a third of those employed in the U.S. were ages 45 or older. In contrast, about 60 percent of federal civil service workers were over age 45.

The aging of the DoD's civilian workforce is partly due to the approach it used to reduce the size of its workforce in the aftermath of the cold war. Employment in the DoD fell from 1.1 million in 1988 to about 700,000 in 1999. One of the ways the DoD accomplished its downsizing was to hire fewer new workers. Data on DoD civilian personnel show that the

fraction of the permanent defense workforce with less than 2 years of service fell from 8 percent in FY 1988 to 2.7 percent in FY 1996 (Asch, Haider, Zissimopoulos, 2003). Furthermore, the average age of those who were hired rose slightly. As a result, the fraction of new hires age 40 and older rose from 18.5 percent in 1988 to 20.5 percent in 1994, just 6 years.

Another factor contributing to the aging of the defense civilian workforce is the high annual continuation rates among mid-career and senior personnel. During the 1980s and 1990s, the annual continuation rate of permanent full-time civilian employees in the DoD held steady at about 97 percent for those ages 41 to 45 and at about 98 percent for those ages 51 to 55 (Asch, Haider, Zissimopoulos, 2003). The net result of reduced hiring, increased retention of mid-career and senior personnel, and increased hiring of older workers is an older civilian workforce in the DoD.

As a result of these demographic changes, DoD will be at risk of losing a large part of its workforce over the next decade. The General Accounting Office projects that about a third of the defense civilian workforce will be eligible to retire by 2006, and about half of that group is expected to actually retire. Similar figures are found for other parts of the federal civil service, resulting in the General Accounting Office designating "human capital" as a government wide high-risk area (U.S. General Accounting Office, 2001). Retirement eligibility over the next decade will be far greater for those workers covered by CSRS than for those covered by FERS.

There are reasons to believe that the civil service system will be highly stressed in the future as a result of this demographic shift.

- *Decisions must be made to replace or possibly outsource the services provided by those retiring.* Whether replacements are new hires or contractors, managers must be able to define what their workforce requirements are in terms of the desired skill and experience mixes, how they will meet those requirements in terms of retention, recruiting or outsourcing, and how these requirements might change as missions change or as the labor market from which personnel are drawn changes.

- *It may be difficult to find and hire large numbers of qualified replacements within a short time span.* Even with a workforce plan, the job of replacing a large number of workers, or of outsourcing their jobs is more difficult and more costly when done within a short time span. First because so many employees will be leaving, the demand for new workers by DoD (whether as replacements or as outsourced jobs), will grow, even if the overall staffing requirements remain the same. Second, the cost of generating and screening large numbers of qualified applicants or contractor bids tends to be higher when done in a short timeframe.

- *The replacement of skills will take place in a highly competitive environment, if the trends of the past 20 years continue.* DoD will be competing against both the private sector and state and local governments for replacements. Though the DoD has had some success recruiting and retaining high-quality personnel in the past, by some metrics, it may be become harder to do so in the future. The competition for new

workers is likely to be particularly fierce in the coming years because the entire U.S. population is aging. If DoD wants to replace retiring workers with new hires or with contractors with at least some college, as will likely be the case, it may need to alter its compensation, hiring, career management and contracting practices to ensure that it can compete effectively for college-educated individuals in the labor market in the future. For example, pay must remain competitive with the dramatically rising pay for those with post-secondary education relative to those with no post-secondary education. (Mishel, Bernstein, and Schmitt, 1999).

- *Some retention of experience personnel will be desirable.* Even if DoD can effectively compete for qualified replacement workers, some retention among retirement-eligible personnel is desirable because they possess institutional knowledge that may be impossible to replace quickly.

Toward Successful Civilian Workforce Management

To help identify what steps are needed for DoD to meet these challenges successfully while addressing ongoing concerns about the effectiveness of its civilian workforce, it is necessary to know what characteristics define an effective human resource system in any organization and to identify where the civil service system falls short for DoD (Asch, 2002).

Although management experts and economists do not have an explicit list of characteristics that make a human resource system successful, the factors that are usually identified in studies of organizational management can be grouped into six criteria (Milgrom and Roberts, 1992; Tirole, 2000).

1. *The HR system offers flexible personnel and compensation tools or policies that efficiently promote the organization's missions.* Compensation and personnel policies provide incentives to attract, retain, motivate, and eventually separate personnel. These policies are sufficiently flexible to allow managers to respond to different markets and to adapt quickly to changing circumstances. The more uncertain or variable the environment, the more flexibility that is required.

2. *Managers have discretion over how the personnel and compensation tools are used.* Managers are able to set pay, to hire, to assign, to retain, to reward, and to separate personnel, and to allocate resources. A general principle in the management literature is that authority to make decisions is given to the managers and workers who have the information and incentives to act on that authority.

3. *Managers have the incentive to use the personnel and compensation policies in a way that supports the organization's mission.* Unused tools or tools that are used incorrectly or ineffectually are not beneficial. Compensation and personnel policies for managers must provide incentives for effective employment of the HR tools. These incentives must be linked to a system that monitors individual managers' performance and holds them accountable for measured outcomes.

4. *Resources are available to implement and monitor those policies.* Unfunded tools--for example, authority to pay bonuses without funding--are not beneficial either. Resources must also be devoted to gathering data and analyzing the

outcomes that result from these policies on an ongoing basis. Such data and analysis inform policymaking, and promote transparency.

5. *Policies are transparent and appropriately linked to the organization's goals, and their implementation is subject to both internal and external oversight.* The policies are transparent to prevent the incidence and costs of opportunistic behavior and fraud among managers. Fraud and nepotism are more likely to occur when managers have discretion. Therefore, HR systems that are more flexible and provide more managerial discretion also have an additional amount of oversight.

6. *Policies are stable and limit the financial and career risks that workers face.* Workers who are exposed to greater uncertainty and unpredictability in their pay and opportunity relative to other employment options receive higher overall compensation, on average, to compensate for that risk. Otherwise, worker morale and recruiting/retention will be diminished.

Each of these characteristics deserves attention when evaluating the merits of an HR system. While organizations may give more weight to some characteristics over others, it is clear from management studies that systems that have only some of these characteristics but not others will not be fully effective.

The federal civil service system contains some, but not all, of the elements understood to be part of an effective HR system. It classifies jobs, sets compensation, and establishes procedures for hiring, promotion, firing, and retirement. However, some HR elements—e.g., resourcing and personnel outcome monitoring—are defined by how agencies implement the system.

As implemented, the civil service system emphasizes the fifth and sixth characteristics: It is transparent, subject to extensive oversight, and its policies regarding compensation and staffing are highly stable and seem equitably applied. It also has the first characteristic, to the extent that the system includes tools that promote flexibility in workforce management. However, the available evidence suggests that it lacks the second, third and fourth characteristics. Defense managers often lack the resources that would let them take advantage of the HR tools built into the system, and they seem to have relatively little discretion or authority over such matters as setting pay or hiring and firing decisions. Defense managers also do not or cannot extensively use the flexibility-related tools that are available.

Clearly, given the large number of retirements that are imminent in the DoD, personnel managers should be given the authority *and* the resources to use flexibility-related policies extensively. Our estimates show that such policies would be effective, if used.

While essential, expanded use of the flexibility-related policies alone will not address problems such as either excessive or insufficient oversight, cumbersome administrative procedures, hiring inadequacies, and poorly conceived management and employee performance incentives. Additional steps will be needed. Various research studies as well as

commissions and study groups charged with studying the federal workforce management have proposed alternative steps. They include the development of new pay systems for subgroups of personnel, such as scientists and engineers, more streamlined processes for recruitment and for political appointments, and transfer of authority for the defense civilian workforce from OPM to the Secretary of Defense. Others have proposed greater investment in monitoring and analytical activities to identify and evaluate policies intended to address shortcomings of the civil service system. Despite the varying scopes of these reports, they have a remarkably consistent message for the DoD regarding how to achieve meaningful change. To ensure a high performing civilian workforce, the leadership in the DoD and Congress must demonstrate a strong and ongoing commitment to not only identify but also reform inappropriate processes and policies that hinder the effectiveness of the civilian workforce in meeting its current and future missions.

STATEMENT BY

SCOTT BLANCH
PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO
COUNCIL 214

BEFORE

THE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
THE FEDERAL WORKFORCE AND THE DISTRICT OF COLUMBIA
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

REGARDING

THE OVERLOOKED ASSET: THE DEFENSE CIVILIAN WORKFORCE

ON

MAY 12, 2003

American Federation of Government Employees, AFL-CIO
80 F Street, NW, Washington, D.C. 20001 ★ (202) 737-8700 ★ www.afge.org

Senator Voinovich:

My name is Jon Scott Blanch and I am the President of the American Federation of Government Employees Council 214, AFL-CIO. Council 214 represents, by far, the majority of bargaining unit employees employed by the U.S. Air Force in the Air Force Material Command. Council 214 consists of ten AFGE Local Union's at the following AFMC bases:

- Wright Patterson AFB, Ohio
- AFMETCAL Department, Heath, Ohio
- Tinker AFB, Oklahoma City
- Warner Robins AFB, Georgia
- Hill AFB, Utah
- Edwards AFB, California
- Kirtland AFB, New Mexico
- Eglin AFB, Florida
- Brooks AFB, Texas
- Logistics Support Office, Michigan

In all, the Council 214 bargaining unit totals out at approximately 36,000 AFMC workers across the Command. It is Council 214's role to address issues that have command-wide impact on bargaining unit employees the Council represents. This is accomplished through negotiations and collaboration at the AFMC/Council 214 level. For example, the master labor collective bargaining agreement between AFMC and AFGE Council 214 is negotiated at this level and is applied command-wide to the

Council 214 bargaining unit. Other examples are Air Force Instructions (AFI's), DOD manuals, AFMC supplements to AFI's or DOD manuals and AFMC policies that affect the working conditions of the 214 unit command-wide, or multiple bases of the command, are addressed at the AFMC/214 level and applied to the represented bargaining unit of the bases.

With that I mind, I deeply appreciate the opportunity to testify on behalf of the thousands of AFMC bargaining unit employees AFGE Council 214 is proud of and proud to represent. They are a vital, skilled and dedicated national asset, focused on one mission, that being to support this nation's war fighters through developing, modifying, testing, maintaining, and delivering the best weapons systems the world has ever known--in the past, now, and in the future.

What AFMC does is a team effort and the leadership of the AFMC team is exemplary. It is my opinion, and the opinion of AFGE National President Bobbie Harnage, that AFMC Commander, General Lester Lyles, and his senior staff, are the best there are in taking care of their employees, so they, the employees, can take care of the AFMC mission--military and civilian alike. And when we say the best, we mean the best in the entire federal sector.

In that spirit, AFGE Council 214 and AFMC work in partnership. Together, we have committed to develop and advocate the means to fully implement our labor/management partnership and to make AFMC an

exciting, productive and rewarding place for our people to live and work. AFMC is a huge, diversified, and complex command, as is the Council 214 bargaining unit structure. But we, AFMC and AFGE, have been and will continue to work in collaboration to meet our challenges now and in the future, both internal challenges and external challenges, where appropriate. AFMC may be able to do things independently. AFGE may be able to do things independently, but the parties recognize that by working together, when we have mutual interests, there is probably not much of anything we cannot accomplish. That is our race strategy, and we are committed to going the distance.

The instructions I received from in my invitation asked me to testify on five issues. The first three issues refer to Wright Patterson Air Force Base specifically. I will defer my testimony to the specifics at Wright Patterson to AFGE Local 1138 President, Pam McGinnis. I will testify to the same issues from an AFMC Command-wide Union perspective. I base this perspective on my personal knowledge and experience gained through AFMC/AFGE partnership activities and face-to-face discussions with bargaining unit employees and Local Union Leadership. As an original charter member of the AFMC/AFGE Partnership Council and now co-chair of that Council, it has been my privilege to visit every AFMC base that is represented by AFGE Council 214. Not only does our Partnership Council con-ops require the Council to rotate bases, but they also require that the Partnership Council be provided a mission briefing for the base we visit. I have received this briefing at every base. The Partnership Council is also provided a tour at each base

to allow us to see, up close and personal, what exactly the employees of that particular base do, how they do it, how they are working to improve the way they do it, and to tell us how they feel about the work they do. Valuable experience.

In my day-to-day dealings, I also receive the rest of the story through conversing with Local Union Leadership and disgruntled employees who may not feel comfortable airing their frustrations and complaints during the Partnership Council tours. I am also frequently approached, or approach management officials, to share concerns. If something is going on, either good or bad, that pertains to the bargaining unit, I hear about it, sooner or later, one way or another. Based on the above, I offer the following as my testimony in this hearing.

The Status of the AFMC Workforce

My opinion on the status of the AFMC civilian workforce is that they are ready, willing and able to handle anything thrown at them. History proves this. AFMC centers and operating locations have, for all intents and purposes, been in some level of surge capability since Desert Storm in 1991. Add to that the fact that during much of this timeframe, the AFMC workforce went through a very traumatic decade of downsizing and a BRAC decision to close two of the five ALC's and substantially downsize other locations and move the workload to the surviving bases. This was a monumental task to undertake, but the AFMC employees made it happen, while at the same

time, maintaining this nation's Air Force weapons systems. To be sure, the demands on the workforce were non-stop. They had to service weapons systems that flew in Bosnia, Kosovo, Afghanistan, and those that enforced the no-fly zone over Iraq for twelve years. And these planes were already old, but AFMC delivered and the war fighters accomplished their missions. 9-11 happened.

As a result, there were more demands placed on the war fighters, which AFMC is an integral part of. For months after 9-11, the Air Force provided air cover over Washington, D.C. and other major metropolises of the United States, non-stop. At the same time Air Force weapons systems were being serviced by AFMC and delivered to the war fighters to do battle against Al-Queda and the Taliban. AFMC accomplished its mission and the war fighters accomplished theirs. Even as that conflict continued, AFMC workers were surging in preparation for the inevitable war with Iraq. AFMC again accomplished its mission resoundingly, as did the United States Air Forces.

The AFMC workforce, indeed the entire defense civilian workforce, are definitely an overlooked asset. Consider objectively the constant distractions they have had to deal with. Hundreds, if not thousands, of AFMC employees voluntarily pulled up roots, relocated their families as a result of downsizing and BRAC. They are under constant threat of losing their jobs to contractors, often without being given an opportunity even to compete in defense of their jobs.

Recently, the Air Force, out of the blue, for reasons unstated and unknown, announced that AFMC would have to eliminate thousands of jobs due to "arbitrary manpower cuts" in 2003 and 2004. So, there we were. The AFMC workforce was working around the clock to support an ongoing war against terrorism and the upcoming war in Iraq, and they are told that an "arbitrary reduction in force" is looming. It is very disconcerting. However, the Administration's Defense Transformation Act's new "National Security Personnel System" makes a disconcerting situation infinitely worse. In that legislation, which last week was marked up in the House of Representatives, the Secretary of Defense will have the authority to rewrite the RIF rules every time they conduct a RIF. Currently, both seniority, employment status, and performance factors are considered when a RIF is conducted. What factors will be considered now? I am outraged over the possibility that if this legislation passes the Senate, supervisors will have the authority to pick and choose who loses his job from a RIF and who stays on. I ask you to make sure that there are rules written into law that force managers to consider all these factors – and explicitly protects against discrimination so that a RIF can't be used just to root out those who aren't the favorites or political cronies of whichever party is in power at a particular time.

The attacks against civilian DoD workers go on and on. The Administration's announcement to contract out 850,000 federal employees' jobs creates enormous stress on the workers – and sends an unmistakable message that no matter how much loyalty is given by workers, no loyalty

whatsoever will be shown in return. The Secretary of Defense announcement that the next round of BRAC will be bigger than all previous rounds combined really strikes hard on the morale in this command because our employees have been there and done that. And now, with victories, and I might add, lop-sided victories, over this nation's current enemies within our grasp, the war fighters are being given a heroic and well-deserved welcome home and job well done from the Administration, the Congress and the American people. The civilian defense workforce in AFMC, on the other hand, is again going into a surge mode to overhaul, repair, upgrade and replenish the weapons systems as a result of the stresses the war's placed them under. To my knowledge, the only well done this workforce has received has been from the AFMC commanders. Everybody else overlooked us, with the exception of the Secretary of Defense. His reaction to our unwavering support of the war fighters was to introduce legislation that will punish the workforce that has just made a crucial and extraordinary contribution to our victories.

If the Secretary of Defense gets his way and you, Senator Voinovich, go along with him, then the thanks the civilian workforce will get will be "goodbye" to your annual pay raise passed by the Congress, and "hello" to total and sole authority to decide whether anyone ever gets a raise going to the supervisor. This is an outrage and I ask you, Senator Voinovich, to give us your word that you will not allow such broad power to the supervisors. Congress has a duty to show its support of the civilian workforce by making sure that our pay is adequate to raise our families. Costs go up every year,

and we rely on that Congressionally passed pay raise each year to make ends meet. Do not let the Secretary of Defense say that national security or poor performers are a good enough reason to deny all of us our hard-earned pay adjustments.

This Union is very proud of this workforces' contribution and the employees are devastated when they learn that the Pentagon leaders intend to reward this effort by stripping them of their civil service protections. The answer to the status of the AFMC workforce question-- they are proven performers, flexible, dedicated, proud, and up to each and every challenge. The fruits of their labor speak for themselves. We work every day to protect democratic rights, only to have the Congress vote to take away those rights and give all power to the Secretary of Defense and the supervisors. That is morally wrong, and I ask you to vote against stripping us of our basic rights in the ways contained in DoD's National Security Personnel System legislation.

Workforce Shaping

In response to the Senator's inquiry as to the effect of voluntary early retirements and voluntary separation incentive payments in AFMC, I offer the following:

While I am aware AFMC uses these as incentives, they are not something the 214 bargaining unit sees much of. The reasons, in my

opinion, are that these employees are primarily blue collar, wage grade employees and GS employees who provide the production workers direct or indirect support at the centers and operating locations. I also believe that while these incentives are a good thing for employees, the times are not conducive to giving financial incentives to the people who assure that AFMC's mission is accomplished to leave the service. What about the famous "human capital crisis"?

I am also aware that AFMC is having a very difficult time filling needed vacancies due to the new Modern Personnel System, or Modern System. This thing has more bugs than a swarm of locusts and I have been informed that it is adversely impacting the mission. Workforce shaping initiatives are an issue that the AFMC/AFGE Partnership Council have identified as a mutual interest and we are working together on many aspects we agree on. Some, we do not. And, while current events have placed these issues on the back burner, they are still on our agenda. There is one thing that I see over and over again, which frankly, bothers me about the incentives. I don't understand why people are paid $25,000 to leave the government and then see the same people back working at the same job, often in the same job series, working as a contractor. If this is to soften the blow of mandatory privatization quotas, perhaps you should reconsider the mandatory privatization quotas. That would be better for the Defense Department, the taxpayer, the war fighter, and the worker – it would be better for everyone but the contractor.

Proposed Reductions

I believe I have addressed this concern in my previous testimony and opening. However, to affirm that at this time it seems inane to reduce the AFMC civilian workforce. The Air Logistics Centers are desperately in need of mechanics, which they have trouble hiring because the wage rates they are offering are too low. It is my understanding that due to this, the ALC's are hiring contractors to subsidize the federal workforce, at a higher hourly cost, because they cannot get federal employees on board. AFMC is training this contractor workforce and when the contracted workers get up to speed, they are informed to apply for the federal position and they are eventually hired by the centers as federal employees. But it takes way too much time and way too much effort. An interesting observation is that these contracted employees jump at the chance to become federal workers. They do apply and accept the federal job over the private sector. The reasons why are federal jobs are still viewed as good job, with good benefits, upward mobility, and a fair system to work in. Of course, none of that will be true if DoD's National Security Personnel System goes forward. It will not be a fair system, and no one knows what will happen to the pay system or chances for upward mobility. In fact, everything could and would change with each new Secretary of Defense.

On the up side, if there is one, when I was originally briefed on the Air Force directive for AFMC to implement a mandatory "arbitrary reduction in

force," I was informed that the only AFMC base that would actually suffer any loss of jobs as a result of the RIF would be Wright-Patterson. Hill AFB, at the time of the announcement, was sitting on over 800 authorized vacancies because of the Modern System. Upon hearing this, it was this Council's position that these vacancies be used in lieu of separations at Wright-Patterson to prevent our people from being arbitrarily separated. It didn't make sense to me to be arbitrarily laying off our people at one base who had years of service, while at other AFMC bases, we were attempting to hire people with no federal experience off the streets. It is my understanding that this approach was adopted by AFMC and that there will be no separations in '03 as a result. This is a prime example of the AFMC Commander's commitment to take care of the people so they can take care of the mission. However, 2004 reductions still loom and it is a challenge we will work together as partners. We would appreciate any help the Senator could provide in correcting the Modern System.

Possible Changes in Law that Would Enhance AFMC's Ability to Manage Its Civilian Workforce

There is not a shred of truth to the claim that Pentagon needs total unreviewable dicretion over everything – from hiring, firing, discipline, pay, collective bargaining – everything, in order to manage its civilian workforce. Their bill is union-busting pure and simple. The people who actually work in this Command know this. They do not need total centralized control with no ability for anyone to hold them accountable. If this were not a totally political

effort to destroy unions and allow Defense Secretaries to move money around to political favorites – through jobs and contracts, the solution to any problems DoD is having with its civilian workforce would be obvious. They need to fund FEPCA!

If FEPCA was fully funded, there would not be a requirement for pay banding. We keep hearing that DOD needs to become more agile in order to carry out its mission. They have all the legal authority they could ever want to carry out their mission – and they know it. At the very same time, that DOD did carry out its mission and has been carrying out its mission in a sustained superior manner, based on sustained superior performance from both the military and their federal civilian defense workers for decades. I keep hearing and reading the old wive's tale that it is too burdensome and complicated to deal with unacceptable performance or to take discipline against employees. I don't know who professes to this false and ridiculous myth, but I can assure you that in the AFMC bargaining unit, unacceptable performance is not condoned and employees suffer the consequences if their performance is not acceptable. If an employee commits a violation of any law, rule or regulation, those employees in the bargaining unit are held accountable.

AFMC processes thousands of adverse actions every year against employees alleged to be unacceptable in their job performance or for allegedly violating the workplace rules, up to and including removing these

employees. So I don't know why the existing laws concerning these issues need to be changed.

Moreover, this Council, through its Locals, is very effective in defending employees who are victims of unjustified performance-based and disciplinary actions. If supervisors were not human, and never made a mistake or acted unjustly, there would be no need for due process rights for workers. But they are human and they do make mistakes. The facts are that there are way too many actions taken against employees that are not supported by facts – or even by the agency and without the current due process in place now, these employees would have been victims of injustice. If you care at all about justice, and making sure that victims of discrimination or false accusations have their "day in court" then you will oppose DoD's bill that takes away all due process rights from civilian employees.

As to other changes to law, we would expect a level playing field in workload competition. We would expect that national security not be contracted out to the lowest bidder – or to the highest bidder with the right political connections. We would like contractor accountability. We believe that this nation's weapons systems must be maintained by the federal employees in federal installations, without having these employees under constant threat of losing their jobs to God know who or what about. We believe that collective bargaining in the federal sector is in the public's interest and that labor and management working together is the way to compete in today's world. We must maintain this relationship in DOD. The

employees in AFMC are relied on by the war fighters. The war fighters are their customer. They must listen to their customer and they must be able to communicate back to their customer. Collective bargaining and working together as partners allows this communication to take place. It must, in the name of national security, be maintained. It must also be maintained in the name of quality and efficiency of the service to the tax payers.

As an example, AFMC recently took on a major initiative called "Back to Basics." The Union was brought in at the outset and was involved in every aspect of implementing this program. And it was a good thing because while there were some great ideas put forth by the powers in the Pentagon to make back to basics happen, there were also some really inane proposals that would have been implemented but for the Union's voice on behalf of the workers. The tool control Air Force Instruction is one that comes to mind. In the aircraft maintenance arena, where back to basics was originally targeted, there are three main skills: aircraft structural mechanics, aircraft electricians, and aircraft general mechanics. And while these skills are the same across the arena, it must be noted that they are employed on different systems. For example, you have F-16 structural mechanics, C-130 structural mechanics, and A-10 structural mechanics. What happened with the tool control AFI in back to basics is that someone, with no knowledge of what goes on in the aircraft hangars across this command, decided that all took kits, by skill, would be generic in issue and would be required to be arranged in the mechanics' took kits exactly the same. The reason for this was to allow a quality inspector, who inspected the kits once a year, to have

an easier job, while at the same time, causing the line mechanics inefficiency every other day of the year because he or she would not arrange their tools in the most efficient manner. A C-130 mechanic might use a big hammer every day, so he would put that hammer in the top drawer. An F-16 mechanic would very seldom use a hammer, so he would put the hammer in the bottom drawer. Thus, they would both have an efficient layout and they would be more efficient. We had to fight for that and we prevailed because we were in this together.

Another example is information technology. Again, a big percentage of the Council 214 workforce are blue collar. They are trained to work on machines. Whether they be aircraft, missiles, lathes, heavy machinery, forklifts, or components of machines, that's what they are paid to do and are required to do. But what is happening again is that someone in the bureaucracy, who knows nothing about the real blue collar world, has somehow decided that all of these workers sit at a computer terminal. Therefore, they have eliminated all of the people that used to support these workers and made this support self-service for the workers electronically. Where workers could once update their entitlements and benefits by simply going to the Entitlements and Benefits Office and working with someone to make a change, they must now go find an available computer terminal and access a web site to make any changes. This hurts the mission because many do not have computer access, computer literacy, or the time away from work to do this.

Where these workers once were automatically considered for promotions based on their experience and qualifications, they must now go to a web site and search for promotions. Then, if they find a job they are interested in, they must self-nominate electronically. But again, they do not have the access, the computer skills, or the time away from their job without adverse repercussions on the mission. This issue is only going to get worse unless it is dealt with. And that's what this Union and this Command are doing--taking care of our people so they can take care of the mission. We believe if this self-service wave of the future is going to continue, and we know it is, we must address these concerns together and any support, morally or legislatively, would be appreciated.

I would be happy to answer any questions the Senator has.

Thank you,

J. Scott Blanch
President
AFGE Council 214

STATEMENT BY

MICHAEL DURAND
DEPUTY TREASURER
AFGE LOCAL 1138

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)

BEFORE THE

UNITED STATES SENATE
COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE
AND THE DISTRICT OF COLUMBIA

ON

STATUS OF THE DEFENSE CIVILIAN WORKFORCE

May 12, 2003
Wright-Patterson Air Force Base
Dayton, Ohio

"An Overlooked Asset: the Defense Civilian Workforce"

My name is Michael Durand, and I'm Deputy Treasurer of Local 1138 of the American Federation of Government Employees (AFL-CIO).

Senator Voinovich, on behalf of the members of Local 1138, I want to thank you for this opportunity to make a statement today to you and the members of this Oversight Subcommittee.

First, I will address the four major concerns that you outlined in your letter of April 12th. Then I will offer some solutions to these personnel challenges for your consideration.

#1. It is my opinion that the civilian workforce at Wright-Patterson Air Force Base has been severely demoralized because of the continued reduction-in-force to which we have been subjected nearly every year for the past decade. This is especially true among the younger population, who no longer see employment at Wright-Patt as a long-term option. This continuous downsizing affects how they view their future. It affects how they perform their jobs. It affects their motivation because opportunities for advancement become fewer with each surplus action. In better times they would be on a fast track. Today their government careers are dying on the vine.

#2. It is my perception that the DOD 2001 and 2002 fiscal year authorization bills which offered early retirements and separation incentives gutted the civilian workforce of its knowledge base. Furthermore, in conjunction with the downsizing, the remaining employees have been stressed by the additional workload imposed on them and upset (once again) by the lack of promotional opportunities and mobility in their careers.

#3. The proposed reductions for fiscal years 2003 and 2004 will continue this cycle of despair. This is the worst time, as we ponder our fate--before the first wave of notices are sent out. The questions begin. Will I lose my job this round, or just be transferred again? Will I be down-graded this time? Managers and supervisors worry about losing their key employees-- the ones with the most knowledge, the most dedication. They also face the possibility of being displaced, downgraded, or laid off themselves. Every reduction-in-force I have witnessed has created an atmosphere of complete turmoil and confusion, in spite of the fact that it has become an annual ritual at Wright-Patt. It just gets worse, not better. In a Memorandum dated October 25, 2002 the Air Force Materiel Command announced the new reductions, with the caveat that there is virtually **no chance** that the projections will decrease, but decisions by the Air Force **may very well increase** the Command's total share of the 2004 reduction mandate as well as those of the out-years. That's hardly encouraging news for the workforce here.

#4. Possible changes to the law that would enhance the Department of Defense's ability to manage its civilian workforce should include the following:

a. Require agencies to identify what happens to the workload from

a. Require agencies to identify what happens to the workload from positions subject to proposed surplus actions. For example, will the work be distributed to other positions of like kind and grade? If not, what affect will eliminating the workload have on the mission of the organization?

b. Require payoffs and voluntary retirement incentives to be separate from the downsizing process. Vacancies resulting from incentives (usually targeted for the older population nearing retirement age) will provide promotional opportunities for the remaining workforce. This would have a positive effect on moral and offset the negative impact of surplus actions. If surplus actions are deemed necessary, they should be determined by factors other than the fact that a position was voluntarily vacated by the incumbent.

Now I would like to discuss a corollary issue that is directly related to workforce moral and stability for your consideration. It is the issue of contract services. During the past decade, the Pentagon has **decreased** its civilian workforce by nearly 300,000 while **increasing** its cost of contract services by 40%. I would like to propose the following legislation to provide a level playing field for the civilian workforce when our jobs are on the chopping block.

#1. Place a moratorium on contracting out jobs traditionally performed by civilians until an accounting is completed which identifies the number of contract employees which have been hired to replace civilian employees, the cost of such contracts, and the work being performed. Statistics from this database should be accessible to the public as well as other governmental agencies, labor organizations, the media, etc. The civilian workforce should be allowed to bid on these contracts as they are renewed.

#2. Free agencies from privatization quotas (whether self-imposed or imposed by the Office of Management and Budget). This will take the pressure off of agency managers to contract out services that are more efficiently performed in-house by knowledgeable career employees.

#3. Allow federal employees to compete for their own jobs as well as for new work in order to save money for taxpayers. This would eliminate the discretion by DOD managers to simply give most work to contractors without any public-private competition.

#4. Make the competition process more equitable and more accountable by providing federal employees with the same legal standing enjoyed by contractors.

In closing, I believe the Air Force should slow down its downsizing in view of what is happening internationally. With all the challenges facing our country -- the constant threat of more terrorist attacks, and a possible pre-emptive attack on Iraq by our military forces -- it defies reason for the Air force to carry out its arbitrary manpower reductions for the

current fiscal year and beyond. During this time of uncertainty and insecurity, downsizing the civilian workforce should be put on hold.

Furthermore, more than 5,000 federal employees have already been called into active duty and deployed to overseas locations. How many of these 5,000 civilians work at Wright-Patterson? Who will do their jobs while they are gone? Will their absence from the workplace be considered in the current downsizing equation? These questions need to be addressed before any further manpower reductions are even considered.

For now, thank you for listening and giving me this opportunity to make a statement on behalf of the members of AFGE Local 1138. I hope we can do this again.

Testimony of Mr. Ronald D. Wine
President & CEO
Dayton Development Coalition

Before a Field Hearing of the Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia

"An Overlooked Asset: The Defense Civilian Workforce"
May 12, 2003

United States Air Force Museum
Wright-Patterson Air Force Base, Ohio

Mr. Chairman and members of the subcommittee, my name is Ron Wine. I am President & CEO of the Dayton Development Coalition. Our mission is to be a catalyst to unite industry, academia, and government to make this region one of the most livable and economically prosperous in the Midwest.

On behalf of the Coalition and the entire Dayton business community and the twelve county area we serve, please allow me to welcome you back to Wright-Patterson Air Force Base and to the Dayton area. It is an honor for the community to host you and the members of your subcommittee.

I want to extend my personal thanks to you, Senator Voinovich, for holding this hearing on the topic of our defense civilian workforce. The Coalition is deeply grateful for your consistent leadership in looking after Wright-Patterson Air Force Base and the thousands of talented and dedicated men and women who work here.

This is a wonderful time to visit Wright Patterson Air Force Base and the Air Force Museum. The Dayton Region is hosting the world's celebration of the 100th anniversary of manned, powered flight which was invented in a bicycle shop only a few miles from here and tested at Huffman Prairie flying field just down the street on another part of the Base.

As the leading economic development agency in the Dayton area, the Coalition's single most important Federal issue is this base where we sit today. We allocate considerable resources here and in Washington monitoring the health of the Base, advocating its invaluable contributions, and offering solutions to problems that might affect the Base. In fact, you might say that for us, national defense is a local issue. JP Nauseef, our Vice President for Aerospace, Defense and Technology—and his team—are focused on supporting Wright Patterson with the long term needs of strengthening the Air Force, industry, academia and community at heart.

So great is the magnitude of this Base on our region's economy, statistics barely tell the story. About 26,000 civil service, military, and contract employees work on the Base. Putting it in another way, nearly one out of every 18 jobs in the entire metropolitan area is physically located within the fence of the Base. It is the largest employer in a single location in the entire state.

The Base is by far the largest employer in the metropolitan area. In fact, it is almost three times larger than the second largest employer. In addition, about 27,000 Base retirees have settled in the area. These are people who also make enormous contributions to the community every day. Because of Wright-Patterson, the Dayton area has one of the highest concentrations of civilian workers outside the Washington area.

Last year, the Base contributed an estimated $2.3 billion to the region through the total value of jobs created directly and indirectly.

Wright-Patterson is more than just an economic engine to the region. It represents a solid base of citizens in the community. Its workers contribute to local charities through the Combined Federal Campaign. They are Boy Scout troop leaders, hospital volunteers, and school tutors.

The workforce of the Base is very special. It is a highly stable, educated, and active group of motivated people. They are the kind of workers every community wants. Few places are as lucky as the Dayton region.

That's why we care so much about Wright-Patterson and its people.

Not only are civil service employees Wright-Patterson large in number, they are diverse in function. That means that if there is a problem with any aspect of civil service law or regulation, that problem is going to show up at Wright-Patterson. In fact, Wright-Patterson might be a microcosm of most of the challenges that face civil service reforms.

The acquisition workforce has often been singled out as an area in need of change. Acquisition is a major mission of the Base.

Scientists and engineers have unique personnel requirements. We are proud that Wright-Patterson probably has more employees in the science and engineer classifications than any other Federal installation. Recent pilot programs authorized by Congress, again, with your help, Mr. Chairman, have made important contributions to workforce flexibility in these important areas.

We even have a major defense educational institution on the Base—the Air Force Institute of Technology (AFIT). The educators and researchers at AFIT require personnel rules appropriate to an academic institution.

Unfortunately, not all is well with Wright-Patterson and the workforce. Our biggest challenge is the sheer decline in workers. Through the 1980s, the workforce increased slowly, hitting a peak of 30,543 civilian and military employees in 1989. We have seen a steep, steady decline since then.

We understand that Dayton's loss is largely the result of America winning the Cold War and facing the requirement for a smaller military. This is good for our nation and we embrace the change.

However, the sharp decline in the civilian workforce has created additional burdens that could be handled through the application of civil service laws and regulations. Hiring freezes and last-hired, first-fired rules have created an aging workforce. We risk losing enormous institutional memory when large groups of senior employees leave at once. Managers don't have the flexibility they need to give the workforce a healthy combination of young vigor and senior wisdom.

Thanks to your efforts, Mr. Chairman, Congress began to tackle this problem a few years ago, and some progress has been made. But more is needed.

These are national challenges that adversely impact our country's defense. The civilians in the Defense Department are a critical part of our war fighting effort. Now, more than any other time in a generation, we must address the needs of the defense civilian workforce and their essential contribution to our national security.

Mr. Chairman, sadly, the title of this hearing, "An Overlooked Asset: the Defense Civilian Workforce," is all too appropriate from a national perspective. However, I can assure you that here in the Dayton area, we are proud of our civilian workers and the unselfish contributions they make to our national defense. They are not overlooked by our local leaders and our representatives in Washington.

Thank you again for your leadership and dedicated service and especially for holding this important hearing here at Wright Patterson Air Force Base, the birthplace and future of aviation.

Testimony of Mr. James Mattice

Before a Field Hearing of the Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia

"An Overlooked Asset: The Defense Civilian Workforce"
May 12, 2003

Mr. Chairman and members of the Subcommittee, my name is James Mattice, of Dayton, Ohio. I am testifying on behalf of the Wright-Patt Initiative, a project affiliated with the Dayton Development Coalition in support of Wright-Patterson Air Force Base. Thank you for the opportunity to allow me to present my testimony on this important subject.

By way of background, I served as Deputy Assistant Secretary of the Air Force for Research and Engineering in the Office of the Secretary of the Air Force from 1992 to 1995. I also served as Executive Director in the office of the Commander, Director of Development Planning, and a variety of senior management positions in Air Force laboratories at the Aeronautical Systems Center of Wright-Patterson Air Force Base, Ohio. I have served on numerous boards, special study panels and advisory committees in government and with industry and academia. I am Director of Management and Organizational Development at Universal Technologies Corporation of Dayton Ohio; however, my views do not necessarily represent those of my company.

I would like to focus my testimony on the National Security Personnel System (NSPS), a proposal of the Department of Defense, and the effects of the proposal on the defense laboratories. I am particularly concerned about the effect on the Air Force Research Laboratory, which is headquartered at Wright-Patterson Air Force Base. However, the legislation would have a similar effect on laboratories operated by the other services.

As you know, the Department of Defense has proposed legislation that would give the Secretary of Defense authority to develop a new personnel system for civilian employees of the department. The proposed legislation provides little detail for this new system; rather it defines a joint process managed by the Department of Defense and the Office of Personnel Management for developing the system and places the system within the Title 5 framework for government-wide personnel management.

While this may be a step forward in providing flexibility for much of the Department, it could be a huge step back for the defense laboratories. Over the years, Congress has recognized the unique nature of scientific personnel and the need for specialized, innovative personnel systems to attract and maintain the best and the brightest scientific minds. Through a series of measures, Congress has already granted the Defense Department significant flexibility for personnel management within the laboratories.

Section 342 of the 1995 National Defense Authorization Act gave the Defense Department authority to establish Personnel Demonstration Projects for its Science and Technology (S&T) laboratories. Under this authority, the laboratories have been free to design effective state-of-the-art personnel programs that have greatly enhanced their ability to meet their human capital requirements. Many of the features of these demonstration projects – pay bands, pay-for-performance, pay-for-contribution, flexible hiring processes – are often cited as best practices. While these changes represent significant improvements for the labs, far more is needed. In recognition of this fact, Congress passed Section 1114 of the 2001 National Defense Authorization Act, greatly expanding the Secretary of Defense's authority to design new, innovative personnel strategies for the S&T laboratories.

The proposed National Security Personnel System now before the Congress will repeal the Section 342 and Section 1114 authorities, which the laboratories have used very effectively to support top scientific talent. Instead, if the legislation is enacted, the Defense Department will develop a different system under which the laboratories will be forced to operate.

It is possible that the new system would maintain flexibility for the laboratories. However, the recent record of the Defense Department suggests that the department will use the authority to reduce the lab's personnel authority, not increase it. Instead of taking advantage of the flexibilities for the laboratories under existing law, in the last year the Defense Department has moved to cancel them. Under the Section 342 authority, which gave Department the authority to establish the laboratory demonstration projects, the Department is now rescinding those same demonstration projects it cited as best practices and replacing them with a new one-size-fits-all personnel system which was developed by Departmental human resource specialists with little involvement by the laboratories and over the strenuous objections of laboratory directors. The Department has done little to implement the powerful new authorities provided in Section 1114, despite the urging of the S&T labs that have developed a strategic vision for the kind of human resource programs and policies they need and could obtain under Section 1114. An April 2, 2003 *Federal Register Notice* describes in detail the new personnel system that is being forced on the labs. This new system will require the labs to adopt career paths, pay policies, and performance management policies that run directly counter to their mission needs.

The Air Force Research Laboratory at Wright-Patterson and other defense laboratories have contributed in astounding ways to the success of America's fighting forces and to the overwhelming military strength enjoyed by our country today. Yet these labs are in serious danger. Numerous studies by the Defense Science Board and others have cited the management problems faced by the labs, and personnel management is chief among these problems. Attracting world-class scientists who are truly the best in the world in what they do is a daunting task, even for the most flexible and creative of organizations. But for an organization constrained by the bureaucracy of the Federal civil service, that task becomes almost impossible. The proposed NSPS seems designed to replace the important new flexibilities the labs have acquired over the

past few years with a new Defense Department personnel bureaucracy equally if not more constrained than the current civil service.

Congress can fix this dangerous situation quite easily by exempting the S&T laboratories from the provisions of NSPS and ensuring they continue to enjoy the far greater flexibilities now provided under Sections 342 and 1114. Further, Congress should direct the Deputy Director, Defense Research and Engineering, who is responsible for laboratory management, to sponsor a study to be conducted by recognized outside experts, to develop a personnel system that meets the specific business needs of the laboratories. The Congress needs to send a clear message that the defense labs are unique national security assets, with very special, very critical human resource needs. They must have a personnel system that serves them.

Thank you.

GEORGE V. VOINOVICH
OHIO

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GOVERNMENTAL AFFAIRS
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ENVIRONMENT AND PUBLIC WORKS
RANKING MEMBER, SUBCOMMITTEE ON CLEAN AIR, WETLANDS, AND CLIMATE CHANGE

ETHICS

November 19, 2002

The Honorable Donald H. Rumsfeld
Secretary of Defense
U.S. Department of Defense
The Pentagon
Washington, DC 20301

Dear Secretary Rumsfeld:

It has been brought to my attention that the Air Force will experience significant, unexpected budget cuts beginning in fiscal year 2003 that are likely to result in an untold number of reductions in the civilian workforce. While this will undoubtedly affect major commands throughout the Air Force, I am concerned that this could have a disproportionate impact at Wright-Patterson Air Force Base, where the ratio of civilian to military personnel is more than 2 to 1.

I am also concerned with the general lack of information available to myself and other members of the Ohio Congressional delegation. After receiving word that the impending cuts would in fact take place, my office contacted the Air Force to receive information about the scope of the cuts and the reason for them. None was available. I believe it is critical to know why this is happening, especially given the fact that Congress recently passed the largest increase in defense spending in our nation's history.

Additionally, I am concerned with the potential impact that this could have on our efforts to shape the Defense Department's civilian workforce to meet the demands and expectations of future national security threats. As you are aware, I have been very active on this issue during my service in the Senate, working to pass legislation to provide the Defense civilian workforce with the flexibility needed to replace retiring workers with the right people with the right skills.

It is imperative that members of Congress know the rationale for these cuts in the Air Force civilian workforce. I would only expect that the number of civilian personnel is being reduced as part of a comprehensive workforce plan. It is my fear, however, that this is not the case. Press reports have indicated that the Air Force has miscalculated the accrual cost of employee heath benefits by roughly $2.5 billion, resulting in significant cuts throughout the budget. I would appreciate clarification of this matter as I attempt to ascertain the impact that the reduction will have not only on my constituents and the State of Ohio, but on overall efforts to improve the civilian workforce throughout the Department of Defense.

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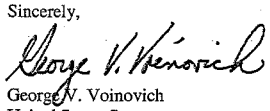
I am hopeful that information will be forthcoming, and thank you for your attention to my concerns.

Sincerely,



George V. Voinovich
United States Senator

DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

Office Of The Assistant Secretary

cc Ted
Avic
Scott
Andrew
Jim

2 DEC 2002

The Honorable George V. Voinovich
United States Senate
Washington, DC 20510-0001

Dear Senator Voinovich:

As you well know, the operational tasks assigned to Air Force units changed significantly on 11 September 2001. The Global War on Terrorism imposes on us a "new steady state" of radically accelerated operations and personnel tempo, as well as a demand for unprecedented speed, agility, and innovation in adapting to unconventional and unexpected threats. While our physical capital and technological prowess are impressive, our real edge lies in our human capital. It is our people who will fight and win this war. Secretary Roche and General Jumper are in the early stages of shaping our workforce so they can meet and defeat these emerging threats.

An important first step in workforce shaping is ensuring we are all working from the same manpower baseline. Only then can our commanders begin a reasoned examination of current capabilities against projected needs. Secretary Roche has asked us to re-baseline our manpower books by eliminating unfunded and unfilled manpower authorizations that should have been cut as a result of long past budget decisions. In certain cases, current employees will be affected by our "book balancing" exercise.

In addition, it is certain that--in the coming years--our workforce will experience some turbulence as we realign skills to meet the challenges of the future. We are only in the earliest stages of this skill-mix adjustment, however, and very few people have yet to be affected. As progress here accelerates, we will be deeply grateful for the force shaping tools provided by you and your colleagues in the Congress. I must emphasize, however, that in aggregate, our focus in preparing this FY04 budget request has been on shaping, not shrinking the force.

You expressed concern that the adjustments at Wright-Patterson were driven by a miscalculation of employee health benefit costs. It is certainly true that in our initial draft of the Fiscal Year 2004 Program we erred in how we addressed health care accrual costs. It is also true that controlling **growth** in labor costs is one strategy adopted to correct for this error. I can assure you, however, that those health care costs are merely one of many fiscal challenges we faced in preparing our program, and we have several more challenges yet to deal with, as the DoD budget review nears conclusion. Even without the health care cost incident or these budget review-driven adjustments, the Air Force would still be balancing our manpower books and shaping our force; our security environment drives those actions.

I understand General Les Lyles has been in touch with you. He is in the best position to explain to you how these three activities--balancing our books, shaping our force, and controlling future growth in labor costs--affect his individual command. Of course, I am available to answer any questions you might have about the policy direction we set for all Air Force MAJCOM s, including Les' Materiel Command.

Sincerely

MICHAEL L. DOMINGUEZ
Assistant Secretary
(Manpower & Reserve Affairs)

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ENVIRONMENT AND PUBLIC WORKS
RANKING MEMBER, SUBCOMMITTEE ON CLEAN AIR, WETLANDS, AND CLIMATE CHANGE

ETHICS

December 4, 2002

The Honorable James Roche
Secretary of the Air Force
U.S. Department of Defense
The Pentagon
Washington, DC 20301

Dear Secretary Roche:

Thank you for having Assistant Secretary Dominguez respond to my concerns regarding possible reductions in the Air Force civilian workforce beginning in fiscal year 2003. In his December 2 letter, Assistant Secretary Dominguez referred to your directive to "re-baseline our manpower books by eliminating unfunded and unfilled manpower authorizations that should have been cut as a result of long past budget reductions. In certain cases, current employees will be affected by our 'book balancing' exercise." Does this mean that the Air Force will reduce and reallocate its total number of civilian full-time equivalents, and it is possible that hundreds of personnel reductions at Wright-Patterson Air Force Base and other Air Force Material Command locations will occur? I would appreciate a written clarification of this statement, including the number of Wright-Patterson employees who will be affected by this "book balancing exercise."

The letter also stated that the "security environment drives those [personnel] actions." Therefore, I would like additional information regarding the Air Force's efforts to "re-baseline [its] manpower books." Specifically, I would like to request that you provide me with a copy of the Air Force's civilian workforce strategic plan which outlines the criteria for the proposed personnel reductions and how such reductions will affect the Air Force's ability to meet future national security threats.

In addition, I would appreciate the opportunity to meet with you as soon as possible to discuss in greater detail these reductions and their potential impact on the Department of the Air Force and Wright-Patterson Air Force Base. Furthermore, I intend to ask Senator Susan Collins, the incoming chairwoman of the Committee on Governmental Affairs, to hold oversight hearings on the Department of Defense civilian workforce as part of the Committee's broader examination of the federal government's strategic human capital management challenges.

While any reductions in force at Wright-Patterson cause me concern, I understand that there may well be appropriate justification for such reductions. However, workforce shaping must be conducted in a thoughtful manner with an eye toward the long-term, not in response to short-term pressures. Workforce reductions conducted over the past

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decade were often done without adequate strategic planning and left the federal workforce ill-prepared in many areas for future challenges. It is imperative that we avoid similar mistakes.

Thank you for your attention to my request.

Sincerely,

George V. Voinovich

George V. Voinovich
United States Senator

Cc: Assistant Secretary Michael L. Dominguez
(Manpower & Reserve Affairs)

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE MATERIEL COMMAND
WRIGHT-PATTERSON AIR FORCE BASE, OHIO 45433-5001

OFFICE OF THE COMMANDER

19 December 2002

The Honorable George V. Voinovich
United States Senate
Washington DC 20510-3504

Dear Senator Voinovich

I am writing to further explain to you the Air Force-wide manpower authorization reductions that will affect Air Force Materiel Command (AFMC) and Wright-Patterson Air Force Base in Fiscal Year 2003 (FY03). These reductions are a result of multiple factors, including adjustments to manpower allocations to account for previous budget decisions. The **good news** is that we have allocated the reductions across the command to minimize the impact to our workers and we are optimistic that **Wright-Patterson will not suffer any layoffs** due to the AFMC share of these FY03 reductions.

The FY03 AFMC authorization reduction for Wright-Patterson is expected to be approximately 146 civilian positions, out of an AFMC reduction total of approximately 892 civilian positions. Although we don't believe Wright-Patterson will have any involuntary separations, we may use reduction-in-force (RIF) actions to move workers into available positions as jobs are eliminated. In addition, some reductions, already planned before these latest cuts, will go forward, which will result in a few layoffs in specific situations, but these are not related to the Air Force-wide cuts to be implemented in the coming year. Before implementing a RIF, the personnel community will evaluate the effectiveness of voluntary early retirement authority (VERA) and voluntary separation incentive program (VSIP) initiatives. The VERA/VSIP authority provided by Congress is a cornerstone of this effort and will also prove invaluable in shaping our workforce to support the highest priority missions associated with the global war on terrorism.

These reductions are the result of complex, multiple factors that, when coupled together, required the Air Force to bring its manpower levels into alignment with its funding. Without a doubt, recent events have increased our workload, deployment tempo, and security posture. As a result, many Air Force units and career fields are sorely stressed. Our challenge is to reallocate our positions to cope with that stress. Getting our manpower levels right is the essential prerequisite to shaping the force to meet the demands of the future. As we have worked through and continue this process, our emphasis has been to minimize the impact to our workforce without jeopardizing our mission: supporting the warfighter.

I understand you have written Secretary Roche with Service-level concerns I have not addressed above; please rest assured he will be in touch with you soon concerning those issues. Thank you for giving me the opportunity to discuss some of the specific actions we're taking at Wright-Patterson. I greatly appreciate your efforts on behalf of our base and our exceptionally talented workforce. I look forward to working with you as we address this challenge and undertake initiatives to transform AFMC and the Air Force. I greatly appreciate your efforts on behalf of our base and our exceptionally talented workforce. I look forward to working with you as we address this challenge and undertake initiatives to transform AFMC and the Air Force.

Thank you for your thoughtfulness and leadership! Support your "Workforce Shaping" initiatives will help us consider-ably! GOD BLESS!

Sincerely

LESTER L. LYLES
General, USAF
Commander