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United States Government Accountability Office
Washington, DC 20548

May 14, 2009

The Honorable John L. Mica
Ranking Republican Member
Committee on Transportation and Infrastructure
House of Representatives

Subject: *Effect of Personnel Reform on the Federal Aviation Administration's Budget*

Dear Mr. Mica:

Under personnel reform legislation enacted in 1995, the Administrator of the Federal Aviation Administration (FAA) implemented a new personnel management system. The system is exempt from most governmentwide personnel laws, but is subject to change only if the Administrator consults and negotiates those changes with the exclusive bargaining representatives of FAA's employees.¹ When FAA and labor cannot reach an agreement regarding changes in the personnel management system, the legislation requires that the Federal Mediation and Conciliation Service be used to reach an agreement, and if that step is unsuccessful, FAA's proposed changes become effective 60 days after FAA transmits its proposed changes, along with labor's objections and its reasons for the objections, to Congress. FAA's first labor negotiation following the reform legislation was with the National Air Traffic Controllers Association (NATCA), which represents, among others, FAA's 15,000 Air Traffic Controllers, Traffic Management Coordinators, and Traffic Management Specialists.²

Your letter asked us to review FAA's human capital system. You also raised several questions, including (1) How personnel reforms have affected FAA's budget and how compensation for FAA's unionized workforce compares with other government employees? and (2) What has FAA done to ensure that the federal budget and appropriations processes are used to guide labor compensation negotiations? We are providing you with the results of our work on these questions to meet your immediate needs, and we will report on our broader work later this year. On March 13, 2009, we briefed your office on the results of this work. This letter transmits a

¹49 U.S.C. § 40122.

²FAA employs about 600 Traffic Management Coordinators and Traffic Management Specialists who are under the same pay plan as controllers. In this report, we use the term "controller" to include Air Traffic Controllers, Traffic Management Coordinators, and Traffic Management Specialists.

summary of the briefing, including additional information that your staff requested, and subsequent comments from FAA.

To analyze the effect of personnel reform on FAA's budget from 1998 through 2006, we (1) compared annual increases in the controller pay scale with increases in the general schedule; (2) compared the growth of personnel compensation and benefits (PC&B) for air traffic controllers with that for other FAA employees; and (3) compared the growth in FAA's annual operations appropriation, which funds most PC&B, with the growth in PC&B expenditures.³ Comparing annual expenditures for PC&B with the operations appropriation over a period of time provides a broad perspective on the effect of the negotiated pay agreement on the budget, although changes in the total number of employees, the mix of pay grades, and external events, such as budgetary rescissions, affect the comparison. To evaluate what FAA has done to ensure that the federal budget and appropriations processes are used to guide labor compensation, we reviewed FAA policy documents and interviewed FAA officials. We conducted our work from December 2008 through May 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The requirement to negotiate pay with unions representing FAA's employees initially affected FAA's budget because FAA had to use funds that were originally intended for other purposes to cover negotiated pay increases. When FAA negotiated the agreement with NATCA in 1998, the agency did not determine the future cost of the agreement prior to signing. Controllers received significant pay increases in the early years of the agreement. Therefore, to cover the increases in pay under existing appropriations, FAA used funds that were originally intended for other purposes. For example, in fiscal year 1999, FAA used \$93 million of its operations appropriation that was originally planned for activities such as hiring, equipment maintenance, and training. Cumulatively, from 1998 through 2006, the agreement resulted in air traffic controllers' pay scales increasing between 49 and 81 percent, depending on the complexity of the air traffic control facility where a controller worked. During this timeframe, the pay scale for federal employees under the general schedule increased by 26 percent. From 1998 through 2006, total expenditures for controller personnel compensation and benefits (PC&B) increased by a greater percentage than total PC&B for other FAA employees. However, during this timeframe, FAA's operations appropriation increased by a greater percentage than total PC&B expenditures. FAA noted that the number of permanent staff funded by operations declined by 7,300, or almost 16 percent, during this time period.

To ensure that the federal budget and appropriations processes are used to guide future labor agreements, FAA implemented a requirement in 2003 that all proposed

³In this report, expenditures refers to obligated FAA funds. An "obligation" is some action that creates a legal liability or definite commitment to pay on the part of the government.

labor agreements be priced out and coordinated with its finance staff. Specifically, every proposed labor agreement must be accompanied by a budget analysis that estimates cost impacts and assesses affordability relative to anticipated funding levels. FAA's intent is to ensure that labor agreements are affordable before reaching agreements. However, FAA noted that pricing out and coordinating labor proposals with the finance staff does not, in itself, limit the cost of a new contract. Overall, FAA followed the new requirement in completing nine agreements and in negotiations for another nine pending agreements. FAA also followed the requirement in negotiations with NATCA during 2005 and 2006 that did not produce an agreement. Because FAA and NATCA did not reach an agreement on pay, FAA followed the steps outlined in the reform legislation, resulting in FAA's proposal being implemented in June 2006—60 days after it was sent to Congress with NATCA's objections to the proposed agreement. Due to higher growth in controller pay bands compared to the general schedule, the new contract implemented controller pay bands that were between 25 and 34 percent lower than those in effect under the prior agreement. Incumbent controllers retained their previous pay levels. Controllers whose pay exceeded the maximum levels of the new bands were eligible for performance pay in the form of bonuses, but not in the form of permanent pay increases. In 2007 and 2008, the new controller pay bands increased by the same percentage as the general schedule.

In commenting on a draft of this report, FAA provided comments through email on slides 9, 10, and 11. Concerning slide 9, FAA stated that the comparison of the overall growth in the operations appropriation, from 1998 through 2006, to the growth in PC&B over the same time period is misleading because FAA's staffing level was 7,300 less in 2006, compared with 1998. We added information on the staff reduction. FAA commented that the reductions resulted from shifting some staff PC&B costs to other funding accounts, and other actions. FAA said that if it had not taken these actions, PC&B would have grown faster than appropriations. Our draft report recognized that a comparison of appropriations and PC&B expenditures over time provides only a broad perspective that can be influenced by a variety of factors.

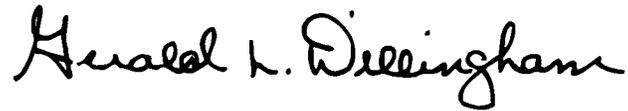
Concerning slide 10, FAA commented that our discussion of its process to analyze the cost of labor proposals prior to reaching agreements is accurate, but noted that the process does not, in itself, limit the cost of a new contract. We added this information.

Concerning slide 11, FAA stated that our discussion of the 25 to 34 percent reduction in controller pay bands, which took effect when the new contract was imposed, did not provide context against the 60 percent higher growth in controller pay bands compared to the general schedule. FAA stated that the reduction was necessary because of this growth in pay bands. We added information to reflect that FAA made these reductions in response to that growth.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until one day from the report date. At that time, we will send copies to the appropriate congressional committees and the FAA Administrator. In addition, this report will also be available at no charge on our Web site at <http://www.gao.gov>. Should you or your staff have questions concerning this report, please contact me at (202) 512-4803 or dillingham@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last

page of this report. Key contributors to this report were Maria Edelstein, Assistant Director; Edmond Menoche; Sherwin Chapman; Carol Henn; Sara Ann Moessbauer; and Bert Japikse.

Sincerely yours,

A handwritten signature in black ink that reads "Gerald L. Dillingham". The signature is written in a cursive style with a large initial 'G' and a distinct 'L'.

Gerald L. Dillingham, Ph.D.
Director, Physical Infrastructure Issues

Enclosure



Effect of Personnel Reform on the Federal Aviation Administration's Budget

**Briefing for the House Transportation and
Infrastructure Committee, Aviation
Subcommittee**

Background

- In 1995, Public Law No. 104-50 § 347 directed the Administrator to develop and implement a personnel management system. 49 U.S.C. § 40122, enacted in 1996, requires that FAA negotiate changes to the system with the exclusive bargaining representatives of FAA's employees.
 - The law requires that when neither the FAA nor the Federal Mediation and Conciliation Service can reach an agreement with labor representatives, FAA's proposed changes to the personnel management system become effective 60 days following FAA's transmittal of its proposal, along with labor's objections, to Congress.
 - FAA's first negotiation under these provisions took place in 1998 with the National Air Traffic Controllers Association (NATCA), which represents, among others, FAA's 15,000 controllers.
 - This agreement remained in effect until June 2006.
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Research questions

- How have personnel reforms affected FAA's budget and how does compensation for FAA's unionized workforce compare with other government employees?
- What has FAA done to ensure that the federal budget and appropriations processes are used to guide labor compensation negotiations?

Research methods

- Reviewed, for 1998 through 2008, controller pay scales and the general schedule; and for 1998 through 2006, FAA expenditures for personnel compensation and benefits (PC&B); and FAA's operations appropriation, which funds most PC&B. In this report, expenditures refers to obligated FAA funds. An "obligation" is some action that creates a legal liability or definite commitment to pay on the part of the government.
- For 1998 through 2006, compared (1) annual PC&B expenditures for controllers with those for other FAA employees, and (2) PC&B expenditures with operations appropriations.
- Discussed with senior FAA officials the budgetary effect of labor agreements and actions taken to ensure that the estimated cost of future agreements are within budget projections.

Note: Throughout this briefing, we use the term "controllers" to include Air Traffic Controllers, Traffic Management Coordinators, and Traffic Management Specialists. All are paid under the controller pay plan and are included in the PC&B data shown in the following slides.

Effect of Personnel Reform on FAA's Budget

- FAA's 1998 pay negotiation with NATCA provided substantial pay increases to controllers, which affected FAA's budget.
- To fund controller pay, FAA used operations appropriations originally intended for other purposes.

Effect of Personnel Reform on FAA's Budget (continued)

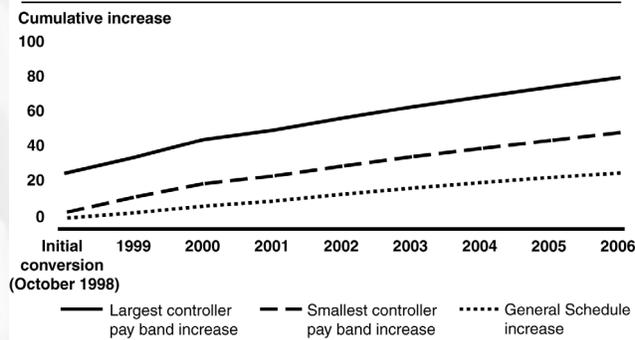
- FAA's 1998 agreement with controllers established a new controller pay scale with pay bands that vary based on the complexity of the facilities where controllers work.
- FAA adjusted controller pay bands by varying amounts from 1998 through 2000, and uniformly thereafter.

Effect of Personnel Reform on FAA's Budget (continued)

Controllers received an initial increase in October 1998 when the new agreement became effective.

Annual increases in controller pay bands exceeded those of the General Schedule from 1998 through 2006.

Range of Increase in Controller Pay Bands Compared to Increase in General Schedule, October 1998–2006

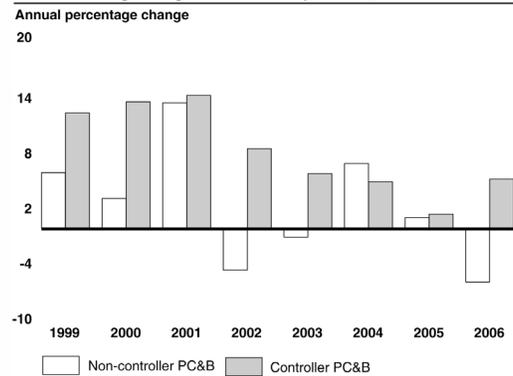


Source: GAO representation of FAA data.

Effect of Personnel Reform on FAA's Budget (continued)

- In 7 of the 8 years from 1999 through 2006, total PC&B expenditures for controllers increased by a greater percentage than for other FAA employees.
- In addition to changes in pay bands, changes in annual PC&B expenditures can result from other circumstances. According to FAA officials, total non-controller PC&B increased more than controller PC&B in 2004 possibly because highly paid controllers were beginning to retire and FAA was not immediately replacing them.

Annual Percentage Change in Total PC&B Expenditures, 1998-2006

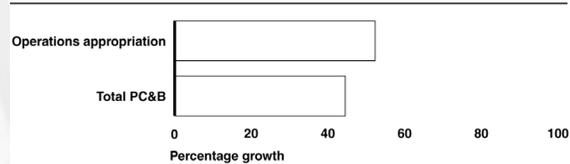


Source: GAO representation of FAA data.

Effect of Personnel Reform on FAA's Budget (continued)

- To provide for increased controller PC&B expenditures in the initial years of the agreement, FAA used funds intended for other purposes. For example, FAA used \$93 million of its fiscal year 1999 operations appropriation, originally intended for hiring, telecom services, equipment maintenance, travel, and training, among other things, to pay controllers.
- FAA's operations appropriation increased by a greater percentage than FAA's total PC&B expenditures from 1998 through 2006. FAA noted that the number of permanent staff funded by operations declined by 7,300, or almost 16 percent, during this time period.

Percentage Growth in Operations Appropriation and PC&B Expenditures, 1998–2006



Source: GAO representation of FAA data.

Ensuring that the federal budget and appropriations processes are used to guide labor compensation

- FAA implemented a requirement in 2003 that all labor agreements be coordinated with its finance staff so that costs are known before approval. FAA noted that this coordination does not, in itself, limit the cost of a new contract.
- FAA has followed this requirement for the 9 labor agreements completed since 2003 and for agreements currently pending.
- FAA's negotiations with NATCA in 2005 and 2006, which also took place following this requirement, did not produce a new agreement.

Ensuring that the federal budget and appropriations processes are used to guide labor compensation

- As provided in reform legislation, FAA's proposal became effective in June 2006—60 days after it was sent to Congress with labor's objections to the proposed agreement.
 - In response to the growth in controller pay bands compared to the general schedule, FAA reduced controller pay bands between 25 and 34 percent in September 2006, when work rules became effective under the new contract.
 - Controllers on board in September 2006 retained their pay levels; those with salaries above the maximum of the new pay bands received performance pay as bonuses, rather than as increases to their permanent pay.
 - In 2007 and 2008, after the new contract became effective, controller pay scales increased by the same percentage as the general schedule.
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