Testimony
of

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Chairwoman Jo Ann Davis, Ranking Member Danny Davis, thank you very much for the opportunity to appear before you today on the topic of federal employee compensation. I am Colleen Kelley, the National President of the National Treasury Employees Union (NTEU), and I appear today on behalf of the more than 150,000 federal employees and retirees represented by NTEU.

First, I want to offer my congratulations to you, Congresswoman Davis, on assuming the Chair of the Civil Service and Agency Organization Subcommittee. NTEU looks forward to working with you and your staff on the many issues likely to come before your Subcommittee in the coming months.

The topic of this hearing is extremely timely and I think it is safe to say that we all share the same goal – to take the appropriate steps to make the federal government an employer of choice. We must do a better job of retaining our current employees and the knowledge and skills they bring to the federal government while at the same time, taking the appropriate steps to entice a new crop of young leaders into public service.

The federal government has failed for many years now to invest in its most important resource – its employees. What we are seeing today is the effect of that failure. The first Volcker Commission issued its report more than a decade ago in 1989. One of the original Volcker Commission's conclusions was that "the gap between what government and the private sector pays has grown far beyond the point where government can hope to recruit and retain qualified staff." The report continued, "if it (the federal government) is to remain a credible career choice, government simply cannot permit the purchasing power of federal pay to decline year after year and the gap between public and private pay for comparable jobs to widen."

In large measure, enactment of the Federal Employees Pay Comparability Act (FEPCA) in 1990 grew out of the Volcker Commission recommendations. Although it represented a fundamental change in how federal pay would be set, it too, has failed. FEPCA has failed because the resources necessary to make it successful were never forthcoming. Whether this Congress recommends reviving FEPCA or establishing a new pay system, a commitment must be made to commit the necessary resources to make it successful.

Unfortunately, the outlook for a fair and appropriate pay setting process for federal employees continues to be mired in politics. Although the Fiscal Year 2003 federal pay raise was recently settled, it did not come without a fight. While recommending an average 4.1% pay raise for the Nation's military employees, the President recommended only a 2.6% pay raise for federal civilian employees in 2003. A chorus of bipartisan and bicameral support in favor of pay parity between the Nation's federal civilian and military employees sprang up in Congress and a 4.1% pay raise was included in the FY 2003 Budget Resolution and subsequent appropriations measures. Despite this display of bipartisan support, the President ignored Congress' intent and implemented a 3.1% pay raise for federal workers prior to the end of the last calendar year. When Congress returned to finish work on the 2003 appropriations measures early in 2003, it again restated its strong support for the minimum 4.1% pay raise for federal employees, a raise that will finally be provided to the Nation's civil servants retroactively in the coming weeks.

Unfortunately, the Administration continues to show a lack of concern for what failure to properly compensate the Nation's public employees means for the future of public service. In its Fiscal Year 2004 budget proposal, the Administration called for only a 2% pay increase for federal workers, sending the unmistakable message -- even to those employees on the front lines of helping secure the nation's borders -- that their work is not as important, not as valued, and not as vital as that of their military counterparts.

We cannot hope to solve the crisis in public service absent a commitment to establish a fair process for setting federal salaries. It is ironic that as frequently as critics of federal government employees claim to want to mold the federal government to be more like private sector employers, pay is one area they often don't seem interested in addressing with a private sector solution. Where would our country's best companies be if they set their employees' salaries without regard to the labor market within which they existed?

NTEU is grateful to you, Chairwoman Davis, for your leadership on this critical issue. Your willingness to contact Budget Committee Chairman Nussle in support of continuing the tradition of pay parity between the Nation's military and civilian workforces was instrumental in the Budget Committee's adoption of pay parity language as part of its Fiscal Year 2004 Budget Resolution. In fact, despite the Administration's opposition, both the House and Senate Budget Resolutions contain language supporting continued pay parity between military and civilian employees of the federal government in 2004. This is an important step in the right direction and one that NTEU heartily applauds.

NTEU was disappointed, however, that the recent Volcker Commission Report did not adequately address the problems with rank and file federal employee pay. While the report offered a number of recommendations in other areas, it failed to propose solutions to this core problem. While the Commission recommends increasing salaries for highly paid top ranking executives, it does not address the pressing need to establish a fair and credible process for setting federal pay to make government service more competitive with the private sector. Likewise, the report largely ignores the growing budget crisis that leaves federal agencies without the resources necessary to do the work expected of them by the American public. Front-line federal employees feel this lack of resources directly and are frustrated by the continuing necessity of doing more with less.

NTEU also has reservations concerning the Volcker Commission's recommendation for the federal government to adopt a pay system that offers agencies more flexibility in setting federal pay and more closely ties pay to performance. The term "pay for performance" has come to mean something different to just about anyone you ask. One thing that is certain, however, is that in places where some version of pay for performance has been implemented, complicated questions and concerns have been raised that have yet to be resolved.

The General Accounting Office (GAO) recently released its study of the Federal Aviation Administration's (FAA) 7 year overhaul of its pay and personnel systems. The FAA replaced its pay system, which had been based on the General Schedule grade and step system, with what it calls a market-based pay for performance system. When the GAO interviewed FAA employees concerning the new system, nearly two-thirds of the employees interviewed "disagreed, or strongly disagreed that the new pay system is fair to all employees." This sense of unfairness, and employees' view that they will not be treated equitably by their managers, has led a greater number of them to seek union representation – the percentage of the FAA workforce who are members of unions jumped from 63% to almost 80% following the implementation of the new pay system.

Concerns about federal supervisors and managers having more control in the pay setting process are by no means unique to the FAA. The group, FPMI Communications, undertook a poll of federal workers last October on the subject of pay for performance. Fully two-thirds of the respondents in that poll believed that giving managers more authority on pay would lead to too much favoritism.

A demonstration on pay banding at the Bureau of Alcohol, Tobacco and Firearms (BATF) is another good case in point. The BATF program began in early 2000, with the first round of salary reviews scheduled for October of that year. Performance standards and critical job elements needed to be in place prior to implementation of the first salary reviews, however, insufficient thought was given to their development and haphazard standards resulted. As is far too frequently the case, managers received little or no training on how to write pay for performance evaluations for this new system. Although NTEU was given the opportunity to review and comment on the proposed standards, our suggestions largely went unused.

Under the BATF program, once performance appraisals were written by managers, they were forwarded to Performance Review Boards (PRBs) that further reviewed the evaluation and issued a final rating of employees. That rating was subsequently entered into a pay matrix that would determine whether or not the employee would be entitled to a performance based raise.

The PRB was given the authority to downgrade evaluations when compared to other employees in the same pay band and job series. And, in fact, evaluations were downgraded. Employees working for poorly trained managers who were, therefore, unable to write a clear, well-documented appraisal suffered under this system. No matter how stellar their performance, if the individual's supervisor was unable to document that performance in a well-written appraisal, the employee would not be eligible for a performance increase. In addition, the authority the PRB was given to downgrade performance evaluations led to the belief among many of our members that the Bureau was operating within a fixed pool of money. In other words, some employees had to have their evaluations downgraded in order for others to receive pay raises. There is no question that this perception of manipulation of the process by management led to employee skepticism about the overall performance appraisal system.

Another feature of the BATF program was one that permitted employees to provide a self-evaluation as well as any external information regarding their individual performance that they thought would be helpful in their review. This could include customer letters or recognition by a professional association or other information the employee thought complimentary to his or her performance review. Although this part of the program was voluntary, most employees were given no training or guidance on developing these self-assessments, further leading to skepticism concerning the program.

While a fair and unbiased performance appraisal system must be an underlying principle in any pay for performance system, the same basic principles must be heeded when judging employees in other situations. In 1996, Congress strongly supported this principle during consideration of a proposal (H.R.3841) to give added weight to the use of performance evaluations during Reductions in Force (RIFs) of federal employees. Members of the House of Representatives raised serious questions during floor debate on this bill concerning the lack of formal guidance for performance appraisals and questioned their tendency to be subjective. In a September, 1996 speech on the House floor, Representative Cardiss Collins, the Ranking Member on the House Government Reform Committee, stated "…performance appraisals are routinely challenged as being subjective and unfair, over inflated and biased against minorities." The proposal was soundly defeated. However, little has changed since 1996 concerning performance appraisals.

Evidence also points to pay for performance schemes in the private sector producing less than desired results, especially when implemented in large or complex organizations. Approximately three years ago, the Ford Motor Company implemented a Performance Management Program and unwittingly created a culture of backstabbing as employees tried to outdo one another instead of working as a team. Instead of cooperation, the system fostered infighting and divisiveness.

Individual employees were rated against each other and instead of working toward a common goal, employees became primarily focused on individual performance. The previous culture of team problem solving and risk taking gave way to a situation where employees were unwilling to make suggestions or propose solutions that might result in their being rated lower than their fellow employees. The federal government, much like Ford Motor Company, relies on employees working together to deliver results. Ford was forced to dismantle key components of their Performance Management Program in the face of sinking employee morale. There are lessons here for the federal government as well.

Similarly, the Fairfax County, Virginia School District was forced to terminate its merit pay plan when it became clear that teachers were being pitted against each other and cooperation and teamwork were being discouraged. Moreover, the School District's commitment to its merit pay plan waned as soon as the program began costing the district money.

Merit pay awards in Fairfax County were scheduled to be 10% salary increases that would be included in base pay and counted toward retirement. When the time came to award these increases, the School Board, facing a budget crunch, reduced the merit raise amount from 10% to 9% and deemed it a bonus instead of a salary increase that would count toward retirement benefits. Still facing budget concerns, the Board subsequently abolished merit pay entirely.

The Texas legislature passed a merit pay law in 1984, but just like Virginia, they too, encountered fiscal problems and scaled back their program. When 100,000 teachers qualified for merit pay, the state changed the rules retroactively to reduce the number of qualified teachers by approximately one-third.

As I stated earlier in my testimony, pay for performance means something different to almost anyone you ask. What seems to be consistent across the board, however, are the problems in designing a quality pay for performance system. Employees must be encouraged to work together rather than compete against one another. A system that promotes individual achievement over group effort is bound to create additional problems. A pay for performance system designed to be used only when budgets are flush will breed contempt for the system and will not work. Development of the performance evaluation system used to rate employees will fail absent employee feedback and commitment to the process. And, appropriate manager training in using the new system is key to ensuring that the system will be perceived as valid.

In summary, NTEU believes that any changes in pay setting procedures that are designed to more closely link pay with performance must embody several core principles. These include:

1) Stakeholders, including employees and the unions that represent them must be full partners in the design and implementation of any pay for performance system.

2) A Pay for Performance plan for the federal government must only apply to within-grade pay increases. Annual pay raises based on the increase in the Employment

Cost Index (ECI) as well as locality pay raises must continue to apply to prevent federal salaries from slipping further behind private sector wages.

3) Pay for performance is not cost neutral. Failure to provide agencies with adequate resources to implement a pay for performance system will doom the system to failure.

4) Proposed changes must be communicated effectively and clearly to employees. Employee perceptions that pay for performance demonstration projects have not treated all employees fairly must be addressed and resolved prior to the implementation of any pay for performance system.

5) Development and implementation of a performance appraisal system must be subject to bargaining with employees and their union representatives.

6) Managers must be appropriately trained to evaluate employee performance. Writing a fair and unbiased performance appraisal requires a level of skill and sophistication that most managers in the federal government do not currently possess.

Thank you very much for this opportunity to appear before your Subcommittee. I would be happy to answer any questions.