



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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February 25, 1982

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-206454



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The Honorable Gary W. Hart
United States Senate

Dear Senator Hart:

Subject: Assessment of the Federal Aviation Administration's Plan To Close Its Denver and Honolulu Regional Offices (CED-82-45)

Your October 7, 1981, letter asked us to review the Federal Aviation Administration's (FAA's) September 2, 1981, plan to close its regional offices in Denver and Honolulu and consolidate them into offices located in Seattle and Los Angeles. Your letter asked us specifically to determine if FAA's cost-benefit analysis was drawn accurately. Information provided by your office in Denver indicates that your primary concern is the closing of FAA's Denver office and its consolidation with FAA's Seattle office.

The cost-benefit analysis contained in FAA's September 1981 plan is generally accurate, except that no cost estimates are included for early retirements, unemployment compensation, and lump-sum annual leave payments. The cost-benefit analysis presents estimates; the actual results of the consolidation when completed--currently scheduled for April 1982--may be different. We believe that if FAA permanently eliminates the positions identified in the plan, long-term savings should result.

While savings were important in FAA's decision to consolidate its regional offices, other factors influenced the final selection of regions and locations for consolidation. The primary factors concerned (1) the degree of managerial attention required to rebuild the air traffic control system in particular regions following the August 3, 1981, controllers' strike and (2) the need to maintain continuity of the centralized aircraft airworthiness certification activities at some locations. Our limited review of these factors disclosed no basis to question FAA's decisions on the regions to be closed.

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BACKGROUND

On June 12, 1981, FAA announced its intention to close 5 of its 11 regional offices. The New York, Chicago, Denver, Honolulu, and Los Angeles regional offices would be closed and their functions would be transferred to the Boston, Kansas City, and Seattle regional offices. The functions and personnel resources of the Alaska, Atlanta, and Ft. Worth regional offices basically would be unchanged. The reorganization was expected to eliminate about 400 positions and save \$19.2 million annually. The one-time cost of the consolidation was estimated to be \$22.3 million. The FAA Administrator stated that these cost-cutting measures were necessary to meet the administration's 1982 budget goals. In response to concerns raised by Members of Congress, FAA announced on July 2, 1981, that it was reexamining its regional consolidation plans.

At the request of the Chairman, Subcommittee on Government Activities and Transportation, House Committee on Government Operations, we reviewed the projected costs and savings and related data and documents that FAA used to make its June 12 decision. On July 21, 1981, we presented the results of our review during hearings before the subcommittee. We commented that while FAA had recognized most of the costs and savings normally associated with a consolidation, some of its estimates were questionable. These questions resulted primarily from the fact that FAA headquarters personnel made many of the computations without the benefit of accurate updated information from regional offices and did not identify clearly the positions to be eliminated. On July 27, 1981, the subcommittee chairman sent a letter to the FAA Administrator setting out a number of factors that should be examined, documented, and accounted for in the reexamination. The September 2, 1981, plan presents the results of FAA's reexamination.

Many of the questions we raised in our review of the June plan are no longer applicable. For example, many of the questions concerned the proposed closing of the Chicago and New York regional offices, which is not proposed in the September 1981 plan. In addition, the new plan and its supporting documentation includes a detailed list of the positions to be eliminated and the plan was prepared using information from the regional offices.

In the current plan, FAA stated that the August 3, 1981, air traffic controllers' strike altered its priorities. FAA decided not to close the regional offices in Chicago, Los Angeles, and New York because rehabilitating the air traffic control system in these regions would require "a large degree of managerial attention." As in the June 1981 plan, the regional offices in Boston, Kansas City, and Seattle were not considered for closure because FAA did not want to disturb the continuity of the aircraft airworthiness certification activities centralized in these locations about 2 years ago. FAA generally refers to these as lead regions. The September plan commented that:

"It is imperative, however, to continue the initiative to reduce the size of Government while maintaining a safe airspace system. After examining the data collected during the reconsideration process, the agency has determined that it can improve its resource management without jeopardizing the rebuilding process, * * * by strengthening several of its smaller less efficient regions through consolidation from eleven to nine regions."

The regional offices selected for closure were Denver and Honolulu. FAA stated that 83 positions can be eliminated when Denver is consolidated with Seattle and 73 positions when Honolulu is consolidated with Los Angeles. FAA estimates an annual recurring savings of \$5.6 million in salaries and personnel benefits and \$0.8 million in telecommunications, space, and other recurring expenses. The estimated one-time cost of relocating personnel, making severance payments, moving property and equipment, terminating leases, and related expenses is \$3.7 million. FAA's current plan shows that the net savings for 5 years, after deducting one-time implementation costs of \$3.7 million, will be about \$28.3 million.

OBJECTIVES, SCOPE, AND METHODOLOGY

To determine the accuracy of FAA's estimates in the cost-benefit analysis, we analyzed FAA's support at headquarters for its September 2, 1981, plan for consolidating the Honolulu and Los Angeles regional offices and the Denver and Seattle regional offices. We also interviewed headquarters representatives about the plan.

To be able to address questions on consolidating the FAA Denver regional office with the Seattle regional office, we visited those offices, the FAA Chicago regional office, and the Boeing Company in Seattle. We interviewed FAA representatives at the Chicago and Denver regional offices to determine the additional management attention needed in Chicago after the air traffic controllers' strike, which was not necessary in Denver. We selected Chicago because we had gathered data about air traffic control activities in Chicago in a prior review ("Controller Staffing and Training at Four FAA Air Traffic Control Facilities," CED-81-127, July 9, 1981).

In Seattle we interviewed agency and company representatives about the need to retain lead region activities in that location. We also interviewed by telephone the chief of an FAA area office in Los Angeles, which performs aircraft certification activities in southern California.

Our review was made in accordance with GAO's current "Standards for Audit of Governmental Organizations, Activities, and Functions."

COSTS NOT INCLUDED IN FAA'S
COST-BENEFIT ANALYSIS

FAA's current plan estimated that the consolidation would cost \$3.7 million. We found, however, that FAA excluded cost estimates for

- employees electing early retirement,
- reimbursements to States for unemployment compensation payments, and
- lump-sum payments to employees for their unused annual leave.

We estimated that these costs would be about \$4.6 million. Although some of these are not direct costs to FAA, they are associated with the regional office consolidation and are proper offsets to FAA's estimated savings. Therefore, FAA's projected 5-year net savings of \$28.3 million will be reduced by an additional \$4.6 million. While this additional cost is significant, long-term savings will still result from the consolidation.

Early retirements

The civil service retirement system incurs additional costs when employees retire early. Several factors affect these costs, including (1) the extra years early retirees spend on the retirement rolls, (2) the loss of employee and agency contributions to the retirement fund that would have been made, and (3) the cost-of-living adjustments the early retirees receive counterbalanced by increased annuities employees would earn if they worked longer.

The additional cost to the retirement system is caused primarily by early retirees' receiving immediate benefits, with little or no reduction. The Office of Personnel Management has determined that each early retirement creates a liability of 130 percent of the employee's final salary. Using that data and the average salary of the 114 employees FAA estimated would retire early, we calculated that the additional cost to the retirement system would be about \$4.2 million.

Unemployment compensation

Unemployment compensation is payable to Federal employees in accordance with practices of the State in which they reside. The amount payable and the length of time benefits may be received

varies according to each State's eligibility requirements. States are reimbursed for unemployment compensation payments to former Federal employees from Department of Labor funds.

To estimate unemployment compensation, we used cost data from a July 1981 Congressional Budget Office study entitled "Cost of Potential Layoffs Under the Administration's Federal Employment Reduction Program." That study acknowledged that any estimate of layoff costs is highly uncertain since actual data was not available on the salaries, ages, and years of service of laid-off employees. The same reservations apply to our cost estimates.

The Congressional Budget Office assumed that 92 percent of the employees involved in a reduction-in-force would receive average weekly unemployment benefits of \$102 for 15.9 weeks. Using those assumptions for the 66 employees FAA estimated would refuse to move, we calculated an estimated cost of \$100,000 for unemployment compensation.

Lump-sum annual leave payments

Federal employees separated from Government service receive a lump-sum payment for their unused annual leave. The amount is based on the salary received at the time of separation and the number of days of unused earned leave they have accumulated. The employing agency normally makes these payments out of its operating budget.

We estimated lump-sum leave payments by using the Congressional Budget Office's estimated average amount of \$1,400 and multiplying it by the 180 employees FAA estimated would receive early retirements or would refuse to move. This resulted in an estimated \$250,000 for lump-sum annual leave payments.

SOME ACTUAL RESULTS MAY DIFFER FROM FAA PROJECTIONS

The actual savings and costs resulting from closing the two regional offices may differ from FAA's projection. The difference concerns:

--The exact positions to be eliminated and the savings to be realized.

--The costs for (1) space needed at the consolidated regional headquarters in Seattle and (2) space required to house field positions remaining in Denver after the regional office functions are transferred to Seattle.

Positions to be eliminated

FAA compiled and gave us a listing of the 156 authorized full-time positions to be eliminated by the consolidation. Each of the 156 positions was identified by regional organization code, job series/grade, and position title. FAA calculated an annual salary savings of \$5.1 million.

The consolidation will result in 287 regional headquarters positions authorized for the newly consolidated Seattle region and 480 for Los Angeles. The Seattle region's chief of management services stated that, although a region is restricted to a position ceiling, the regional director has much discretion about how the various divisions in the regional office are staffed. For that reason, as long as the regional directors in Los Angeles and Seattle stay within the position ceilings and have office configurations that meet the guidelines for FAA regions, they may eliminate or add positions. In addition, grades for positions can be raised or lowered.

While 156 positions may be eliminated, the actual positions and grades eliminated may not be the same as those in the listing provided by FAA and the resulting salary savings may be different.

Space needed

The September plan shows that if the consolidation is implemented, an additional 22,350 square feet of office space would be needed in Seattle at a cost of \$12.75 per square foot for a total of \$285,000. In an October 30, 1981, letter to FAA headquarters, the Seattle regional office stated that it had requested that the General Services Administration obtain about 35,000 square feet of space. This space was estimated to cost about \$14 per square foot, or about \$490,000.

FAA's September plan also calculated a cost of \$23,247 for space required for the 27 field positions remaining in Denver. This calculation assumed that these employees will remain in space currently costing \$5.75 per square foot. In the October letter mentioned above, however, the Seattle region proposed obtaining new space for the Denver field positions at an estimated cost of \$15 per square foot.

While FAA's method of estimating the costs of additional space appears reasonable, the Seattle regional office's actual plans for acquiring space indicate that rental costs will be greater than anticipated in the September plan.

FACTORS OTHER THAN SAVINGS AFFECTED
FINAL CONSOLIDATION DECISION

While savings were important in FAA's decision to consolidate its regional offices, other factors influenced the final selection of regions and the locations for consolidation. The September plan shows that FAA did not wish to close regions that

--will require a large degree of managerial attention during the rebuilding of the air traffic control system and/or

--were designated as lead regions responsible for carrying out various airworthiness certification programs.

Although FAA also considered factors such as air traffic activity and staffing ratios in its consolidation decision, the factors cited above seemed to be of primary concern.

Managerial attention required to
rebuild air traffic control system

FAA proposed in its June 1981 regional office consolidation plan to close five of its regional offices--Chicago, Denver, Honolulu, Los Angeles, and New York. The FAA Administrator agreed in July 1981, however, to reconsider this decision. FAA stated in its September 1981 consolidation plan that:

"The illegal strike by air traffic controllers, which occurred during the reconsideration process, has substantially altered the priority of issues facing FAA management. At the present time the agency's primary concern is to rebuild the air traffic control system while maintaining the safety and efficiency of the National Airspace System. In view of the current circumstances, the agency decided not to close the headquarters in regions that will require a large degree of managerial attention during the rebuilding process."

FAA's revised plan proposed closing only the Denver and Honolulu regional offices because the Chicago, Los Angeles, and New York offices would require larger degrees of managerial attention. The Chicago, Los Angeles, and New York regions were among the highest in the number of air traffic controllers fired, and Denver and Honolulu were among the lowest.

Officials at FAA's Chicago and Denver regional offices disagreed sharply on the extent of the impact of the controllers' strike. However, they agreed that all of the regions perform primarily the same functions.

Officials at the Chicago regional office, citing the region's size in terms of FAA facilities, staff, and flight activity, indicated that their problems were larger and more complex than those in Denver. They pointed out that they fired almost five times as many air traffic controllers as Denver--2,651 compared with 572. They also noted that Chicago has historically had a unique recruiting, training, and retention problem. The regional director stated that he told the FAA Administrator that consolidating the Chicago regional office with the Kansas City office--as proposed in FAA's June 1981 plan--could not be guaranteed while the regional staff was trying to deal effectively with air traffic controller problems.

Denver officials agreed that the Chicago region has more facilities and flight activity but indicated that those factors are not the only indicators of complexity or magnitude of problems. The Denver officials cited the problems caused by the region's larger geographic area and mountainous terrain with field offices at small, remote locations. They also indicated that the Denver region has its own unique staffing and retention problems.

It is difficult to determine from information we obtained the varying degrees of management attention required by the regions. Because the number of controllers fired seems to be a primary consideration, regions that fired the highest numbers of controllers may require a larger degree of managerial attention during the rebuilding of the air traffic control system.

Lead region concept

FAA, in its September plan, designated Seattle to be a consolidated regional headquarters. In making the designation, FAA stated that the "proximity of the lead region certification staff, which has the lead region function for air transport category aircraft, to the major aircraft manufacturers is vital." The fact that Seattle is a lead region appears to be the key in FAA's decision that Seattle should be a regional headquarters.

According to FAA, the term "lead region" refers to "a region that has been assigned authority to perform national headquarters staff regulatory and policy functions relative to various airworthiness certification programs." When FAA implemented the lead region program, it designated specific regional offices as having lead responsibility for certification. The term "certificating region" refers to the region holding final authority and responsibility for aircraft type production and newly manufactured airworthiness certification, or approval of a particular aeronautical

product (aircraft, aircraft engines, propellers, materials, parts, appliances, etc.)... The policy and regulatory lead region staff functions, the certification function, and the aircraft certification directorates are all included as part of the lead region concept.

Seattle lead region structure and activity

On May 30, 1980, FAA designated the Seattle region as lead region for Federal Aviation Regulation part 25, transport category aircraft, effective November 1, 1980. To carry out responsibilities for certification of transport aircraft, the Seattle aircraft certification division was established. This division manages and directs the FAA certification program for all domestic-made airplanes over 75,000 pounds gross take-off weight and all foreign-made airplanes being certificated as transport category airplanes. The chief, aircraft certification division, located in Seattle, is responsible for the Seattle area aircraft certification office, the Los Angeles area aircraft certification office, and lead region policy and regulatory program functions.

The Los Angeles area certification office has responsibility for manufacturers' programs at McDonnell-Douglas and Lockheed and as of November 10, 1981, had 50 employees. The Seattle area certification office has responsibility for manufacturers' programs at Boeing and had 64 employees as of November 10, 1981.

The lead region program staff of the aircraft certification division is located in Seattle and includes a policy/procedures section and a regulations section. The lead region staff updates regulations and standards, national policies, advisory circulars, and national directives providing technical guidance on procedures and practices. The staff is also involved in precedent-setting certification issues, issuing airworthiness directives, and other regulatory actions. As of November 10, 1981, this staff had 12 employees.

The chief, lead region program staff, told us that his staff works daily with the certification staff and at least one of his staff is involved in two or three weekly meetings with the certification staff and the Boeing Company. His staff participates regularly in joint meetings to learn about the various systems and to maintain an overall knowledge base. The chief deals daily with the Seattle certification division chief to coordinate their actions and to relay information to the regional director. Although the lead region program chief does not report directly to the regional director, he or a staff member do meet regularly along with area office certification staff in a project team setting to keep the

director informed. Furthermore, the lead region staff deals daily with the Seattle regional flight standards aircraft evaluation group staff and weekly with the region's general counsel to discuss wording of policies and regulatory actions.

The lead region chief told us that his staff has contact with the Los Angeles certification office primarily by telephone with occasional face-to-face meetings. The lead region staff also participates in the weekly teleconference calls to coordinate actions between the Seattle and Los Angeles area certification offices. When making decisions, the lead region staff draws on the resources within the area certification offices and the flight standards division. The lead region chief stated that his staff also deals directly with the Boeing airworthiness managers and the designated engineering representatives on matters of clarification, interpretation, and technical guidance on policy and procedures. According to the chief, the lead region function needs to be colocated with the certification function. If separated, the staff would become less responsive; would take more time to make decisions; and would soon lose the knowledge base needed to make good, timely decisions.

The Seattle regional director told us that the lead region concept is an essential part of centralizing the engineering functions and increasing FAA's overall effectiveness. He said that if this function were moved to any place--other than possibly Los Angeles--the effectiveness would be greatly reduced.

The chief of the Seattle aircraft certification division, Los Angeles and Seattle area certification office chiefs, and Boeing Company representatives expressed similar views to those of the Seattle regional director and lead region program chief.

FAA documents and interviews with FAA officials in Seattle emphasized the importance of collocation of the staff involved in lead region-related activities. The Seattle regional director stated, however, that, considering functions other than certification and lead region, location would be a "toss-up" between Denver and Seattle. He added that since the agency has placed a priority on aircraft certification and improving FAA's efficiency and effectiveness, consolidation in Seattle is justified. We found no basis to question FAA's decision.

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We have discussed the material in this report with FAA officials. As arranged with your office, this report is being made available for general release today. We are sending copies to the Director, Office of Management and Budget; the Secretary of Transportation; the Administrator, Federal Aviation Administration; and interested congressional committees. Copies will also be available to other interested parties who request them.

Sincerely yours,



Henry Eschwege
Director