

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Enclosed for the consideration of the Congress is a legislative proposal entitled the "Managerial Flexibility Act of 2001," together with a sectional analysis. This proposal would give Federal agencies and managers tools to more effectively manage Federal programs.

This proposal is a key element of the Administration's "Freedom to Manage" initiative to clear statutory impediments to efficient management. A related proposal, the "Freedom to Manage Act of 2001," would establish a procedure under which the President would identify structural barriers imposed by law, and Congress would quickly and decisively consider and act to remove those obstacles. This proposal, the "Managerial Flexibility Act of 2001," would provide Federal managers with tools and flexibility in areas such as personnel, budgeting, and property management and disposal. As part of the FY 2003 budget process, additional proposals will align resources with results and charge for the cost of resources where and when they are used, and will identify further statutory provisions, which if repealed, would remove barriers to efficient management.

There are few items on the legislative horizon more urgent than ensuring that the Federal Government is well run and results-oriented. Unfortunately, Federal managers are limited in how they can use financial and human resources to manage programs. They often lack the discretion that is common in the private sector to do what it takes to get the job done. Red tape hinders the efficient operation of government organizations. Micro-management from various sources within the Federal Government imposes excessive control and approval mechanisms coupled with extensive operational rigidity.

This proposal will result in significant simplification and improvement of the processes and tools now available to Federal managers to manage employees, resources, and assets. Thus, we can expect that program performance and accountability will improve.

Specifically, this proposal: (1) provides Federal managers with increased flexibility in managing personnel; (2) gives agencies the responsibility for funding the full Government share of the accruing cost of all retirement and retiree health care benefits for Federal employees; and (3) gives agencies greater flexibility in managing and disposing of property assets.

This bill gives Federal agencies and managers increased discretion and flexibility in attracting, managing, and retaining a high quality workforce. Currently, Federal personnel laws are unduly complicated and rigid. These laws tie the hands of Federal managers who are trying to effectively manage programs. This proposal gives Federal managers the tools and the authority to cultivate a workforce that is able and motivated to successfully and productively operate programs and produce results.

This proposal empowers Federal agencies to determine when, if, and how to offer incentives to attract new employees to their organizations. Agencies would be equipped with enhanced authority to use recruitment, retention, and relocation bonuses, among other tools that are available to the private sector. The bill encourages innovation in personnel management by authorizing agencies to develop alternative personnel systems, while still protecting veterans rights to preference in hiring. These alternative personnel systems make it easier to attract and hire employees that best fit the position. This proposal also makes changes to the Senior Executive Service to help treat and recruit these high level Federal managers more comparably with their private sector counterparts. This would enable managers to shape a workforce that responds to new challenges and issues, as well as permit agencies, under certain circumstances, to offer early retirement packages to employees. As a package, these new and expanded authorities will empower Federal managers to make the decisions and cultivate a workforce that can lead to increased efficiency and effectiveness in Federal programs and can respond to the changing dynamics of the economy.

This bill charges agencies the full Government share of the accruing cost of all retirement and retiree health care benefits for Federal employees. In the 1980s, Federal civilian and military employee retirement systems were redesigned so that agencies began paying the full accruing cost of pensions for new civilian hires and retired pay for military personnel. However, agencies still pay less than half of the Government's share for about 700,000 non-Postal employees hired before 1984 in the Civil Service Retirement System; and uniformed members of the Coast Guard (USCG), Public Health Service (PHS), and National Oceanic and Atmospheric Administration (NOAA) still have pay-as-you-go systems. Last year, an accrual system was enacted for health care costs of over age 65 uniformed services (Department of Defense, USCG, PHS, and NOAA) retirees. But adjustments are needed in that legislation to include retirees under age 65, and an accrual system is needed for the retiree health care program for civilian employees, the Federal Employees Health Benefits Program, which is still funded on a pay-as-you-go basis.

This proposal is the first Government-wide step in linking the full cost of resources used with results achieved in support of budgeting and managing for performance. Employee retirement benefits would be accrued as they are earned, and unfunded liabilities would be amortized. This proposal will not change any of the benefits provided by these programs, and will not change the level of employee contributions.

This Administration plans to transmit additional proposals to align resources with results and charge for the cost of resources *where* and *when* they are used. Those proposals would provide all of the resources appropriated to carry out the missions of the Chief Financial Officers Act agencies to deliver goods, services, grants, transfers, credit, and regulation in order to achieve desired outcomes for the public to the bureaus and programs assigned to produce these results. It would charge them, not only for salaries and the accruing cost of retiree benefits, but also for the cost of support goods and services, use of capital assets, and the clean-up of hazardous waste generated by Federal operations. This Administration plans interrelated initiatives that would: (1) present performance information along with resource requests, and use that information in making budget decisions; (2) commit to a sustained effort to build performance-oriented organizational cultures within agencies; (3) better align human and financial resources with desired results; (4) increase internal and external competition using performance-based contracts; (5) provide managers with the authorities, tools, and flexibility they need to be successful; (6) hold managers accountable and reward them for their contributions to achieving results; (7) use information technology to improve performance; and (8) report integrated performance and financial results to policymakers and the public.

The Federal Government owns or controls over 24 million acres of land and facilities that were acquired for the use and operation of Federal agencies in support of their missions. Since 1949, the Federal Property and Administration Services Act has provided the foundation for the management and disposal of these acquired lands and facilities as well as personal property acquired for mission purposes. Over the years, the Federal Government has been restricted from consolidating or releasing underperforming property, and in some instances properties have fallen into disrepair or become obsolete.

In many instances Federal agencies lack true incentives to release or renovate these properties or to apply asset management principles to their property due to management barriers. In addition, agencies often lack the authority to use business-like financial tools to tap the equity in their properties. This proposal facilitates a total asset management approach to Federal property issues by: (1) improving life cycle planning and management; (2) allowing greater flexibility to optimize asset performance; (3) providing incentives for better property management; and (4) streamlining and enhancing processes. Modernizing these processes would enhance Government-wide property management and bring the policies and business practices by which Federal agencies manage their property and assets into the 21st century.

We can only expect Government operations and performance to improve if we equip our Federal agencies and managers with the necessary flexibility and tools to efficiently manage resources and programs. I urge the Congress to give this legislation prompt and favorable consideration.

Sincerely,

Mitchell E. Daniels, Jr.
Director

Enclosures

Identical Letter Sent to the President of the Senate