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The Honorable Joseph Duffey
Director, United States
Information Agency

The Honorable Daniel Mica
Chairman, Board for International
Broadcasting

Following the President's deficit reduction proposal to consolidate U.S.international broadcasting activities, we initiated a review of the costs and issues associated with liquidating Radio Free Europe/Radio Liberty (RFE/RL). During our review, the President announced that you had reached an agreement that both RFE/RL and the Voice of America (VOA) would be downsized, redundant languages would be eliminated, and engineering and some administrative operations would be combined. The President subsequently proposed that RFE/RL be converted to a federal agency. In response to these actions, we expanded our review to identify those issues that could affect the savings and operational efficiency of the consolidated agency. We believe you may be interested in our observations as you prepare to consolidate international broadcasting.

GAO OBSERVATIONS ON INTERNATIONAL BROADCASTING PROPOSAL

As you may be aware, since 1976, we have supported the consolidation of international broadcasting.[1] We believe the current consolidation plan is a good first step in defining the new structure of U.S. international broadcasting. However, our work indicates that the announced consolidation proposal includes many outstanding issues that could affect both the anticipated savings and the operational efficiency of the new consolidated

[1] Suggestions to Improve the Management of RFE/RL (GAO/ID-76-55, June 25, 1976).

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organization. Additionally, we believe that the greatest savings could be realized by relocating RFE/RL to the United States.

Regarding the future status of RFE/RL, we could not determine whether maintaining RFE/RL as a private corporation or converting it to a federal agency in Germany would achieve the greatest savings during the life of surrogate broadcasting to Eastern Europe and the former Soviet Union. However, the information thus far released clearly indicates that the bulk of the savings would result from significant staff reductions due to the elimination of some broadcast languages and the consolidation of administrative and engineering functions within U.S. Information Agency. These actions would be taken regardless of whether RFE/RL is federalized or not (see enclosure I).

Savings would clearly be affected by the costs incurred to merge the organizations. Initially, we estimated that liquidating RFE/RL would cost more than $200 million. We made this estimate on the Office of Management and Budget (OMB) assumption that as of September 30, 1995 RFE/RL would cease to exist, all employees would be terminated, all facilities would be closed down, all contractual obligations would be met, and all of its remaining assets and liabilities would be liquidated. Based on the announced consolidation proposal, we subsequently estimated that downsizing RFE/RL would cost approximately $130 million. However, uncertainties regarding the process of downsizing, such as whether RFE/RL would have to pay all of its severance and pension liabilities and how much would be paid to each severed employee, could drive actual costs above or below our rough estimate (see enclosure II).

SCOPE AND METHODOLOGY

We reviewed documents, including contracts, and interviewed officials on the costs and issues associated with downsizing and federalizing RFE/RL from their offices in Munich, Germany, and Washington, D.C. We also met with officials from the Board for International Broadcasting; the Office of Management and Budget; U.S. Information Agency; and VOA. We based termination costs on the OMB assumption that RFE/RL would cease to exist as of September 30, 1995, and would continue to meet its personnel and contractual obligations until then. Regarding the President's consolidation plan, estimates of the cost of downsizing were based on information available as of June 1993.

We hope this information is helpful as you proceed with your plans for consolidating international broadcasting. If you have any questions, please call me on (202) 512-4128. The major contributors to this review were Charles Schuler, Assistant Director; Joan M. Slowitsky, Evaluator-in-Charge; Julie Hirshen and Jean Fox, Evaluators; and John Butcher, Adviser.

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Enclosures - 2

ISSUES IMPACTING THE POTENTIAL SAVINGS FROM FEDERALIZING RFE/RL

With the information currently available it is not possible to determine whether retaining RFE/RL as a grantee or federalizing the entity would be the more cost effective approach during the life of surrogate broadcasting to Eastern Europe and the former Soviet Union. The following outstanding procedural, personnel, administrative, and financial issues must be resolved. Regardless of whether or not this entity remains private or is federalized, as we stated in 1976, the most cost-effective approach is to relocate the organization to the United States.

PROCEDURE TO FEDERALIZE RFE/RL WILL IMPACT COSTS

While federalization as a concept may be easy to envision, the actual conversion may in fact be difficult. The approach and procedures for converting RFE/RL, whose main operations are located in Germany, into an office in the United States Information Agency, have not been determined. We have calculated that it would cost more than $200 million to liquidate RFE/RL as a company, including terminating all employees, closing all facilities, paying all contractual obligations, and liquidating all remaining assets and liabilities. We do not know which of these expenses would be incurred if the company were converted to a federal agency. For example, an RFE/RL financial officer believes that the company has a contractual obligation to pay all severance and pension to employees even if they are retained in the federalized entity. On the other hand, there has not been a determination on whether the Federal government could assume RFE/RL's future pension liability if the company does not have to immediately make these payments.

Additionally, the executive branch has not determined what languages it will broadcast and thus what facilities will be needed to carry out the international broadcasting mission. It is possible that through the process of federalization, the United States could lose access to RFE/RL transmitter sites and its 75 shortwave frequencies in Germany since the transmitting licenses with RFE/RL state they are "not-transferable." In addition, RFE/RL has been operating in Spain without a formal agreement since 1976, and it is unclear how the Spanish government would react if the U.S. government, rather than a private corporation, began operating the transmitting facilities. Thus, a possible result of federalization is that the United States could (1) lose access to potentially strategic transmitting facilities or (2) incur additional costs, such as increased rent, to retain these facilities under the auspices of the U.S. government, if it was allowed to operate the facilities.

PERSONNEL SAVINGS ATTRIBUTABLE TO FEDERALIZATION COULD BE LESS THAN ANTICIPATED

The executive branch believes that substantial personnel savings could be achieved by federalizing RFE/RL. U.S. officials informed us that these savings would be achieved by (1) reducing RFE/RL's workforce and mission, and (2) reducing the per capita costs of RFE/RL employees by placing them in the U.S. federal service, and consolidating RFE/RL engineering and some administrative functions within USIA in Washington, D.C.

Reduction in Personnel Primary Source of Savings

The executive branch anticipates that the greatest savings would be realized through the reduction in RFE/RL personnel strength. This reduction would occur primarily through the elimination of several broadcast languages, removal of some activities in Europe, and consolidation of RFE/RL's engineering department with the Voice of America (VOA) in Washington, D.C. These actions could be taken regardless of whether or not RFE/RL is federalized.

There is potential for additional savings. For example, we were informed that OMB plans to eliminate a number of RFE/RL executive and administrative positions in Germany and Washington, D.C., and shift these functions to USIA. Furthermore, we understand that the executive branch is currently considering what budget and finance positions can be eliminated. However, because it has not detailed how many positions will be eliminated, we are unable to assess the impact on costs or savings.

Significant Per Capita Savings May Not Immediately Materialize

Significant per capita savings might not be achieved for some time. The administration's proposed legislation states that all RFE/RL employees who are permanent employees as of September 30, 1995, would be placed in the excepted service and that "to the extent permitted by law, compensation, benefits, and personnel rules shall be modeled after existing RFE/RL, Inc., personnel and compensation systems until the employees leave or retire." As a result, staff might not lose benefits such as their current pension plan, which is fully paid for by RFE/RL. Thus, converted staff may not suffer financially. Acknowledging this fact, OMB stated that immediate savings would not be realized from the retained staff.

There are some opportunities to achieve per capita savings for employees under the excepted service. However, since no plan currently exists which details compensation and benefits, we cannot exactly determine where the savings will be achieved. It is possible, though, that immediate savings could be realized through the elimination of RFE/RL's tax protection payment to the 12 executive-level staff (a savings of about $545,000 per year) and a reduction in the post allowances for approximately 98 executive and management-scale U.S. and third country employees working overseas (currently at $2,488,848).[2]

Tax protection could be eliminated because RFE/RL employees in the excepted service might no longer be subject to German taxes. The post allowance could be reduced from 58 percent of spendable income to 10 percent, the level U.S.

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[2]Post allowances are given to compensate U.S. federal or private sector employees for the higher cost of working abroad. To determine the amount of the allowance, the cost of living in a particular city overseas is compared to the cost of living in Washington, D.C. The U.S. government allowance accounts for advantages available only to U.S. employees such as military or employee operated commissaries. On the other hand, private businesses assume that all goods and services will be purchased on the foreign local market.

federal employees receive.[3] However, since employees brought in under the excepted service might retain their salary and benefits, it is not clear if such an allowance reduction could be implemented. Thus, initial savings due to a reduction in post allowances could be smaller than anticipated.

Furthermore, even if the post allowance were reduced for the 98 employees, these savings could be partially offset. The population eligible for this benefit might increase under federalization because, in addition to the current management level employees, all U.S. and third country nationals--regardless of grade--might be eligible for this allowance to be consistent with VOA practices. At this time, we do not know how large or small this population could be.

Additional per capita savings will occur once RFE/RL staff are fully integrated into the federal general civil service schedule (GS). For example, civil servants contribute to their pension, whereas RFE/RL employees do not. Furthermore, OMB believes that integrating new employees into the GS system will eliminate the pay disparity between RFE/RL and VOA salaries for employees in similar positions.

Nevertheless, substantial savings from a reduction in per capita costs would not be realized until a large percentage of the current employees left or were replaced by employees hired under the GS system. Executive branch officials informed us that downsizing RFE/RL in Germany is an immediate objective and that eliminating surrogate broadcasting to the region is a long-term goal. Therefore, it is unlikely that many new positions would be created or that vacated positions would be filled. Furthermore, the average age of an RFE/RL employee is approximately 48, and the average age at retirement is 64. If most people remained until they would normally retire, it would take about 16 years, or until the year 2010, before significant per capita savings would begin accruing as a result of federalization.

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[3]Spendable income is defined by the Department of State as that portion of base salary available to an employee for the purchase of goods and services such as food, home furnishings, clothing and entertainment.

Cost of Local Hires in Federal Entity May Not Change

Although we did not thoroughly analyze all the different compensation packages paid to German staff at RFE/RL, VOA, and the U.S. Embassy, our analyses of comparative salaries and principal benefits suggests that the compensation paid to local employees may not change substantially under federalization.

RFE/RL German nationals would likely be eligible for the same compensation plan as their VOA counterparts (called foreign service nationals, or FSNs) working under the auspices of the U.S. Embassy. This compensation package is based on surveys of local salaries, and the benefits package is based on prevailing practice. The Foreign Service Nationals Handbook states that "such payments (i.e. benefits) must conform to U.S. law and to German law. When the Department is precluded from following the prevailing practice because of U.S. or German law, the value of the benefit may be monetized and included in the salary." For example, the prevailing practice in Germany is a 38 hour workweek, while in the United States it is 40 hours. Thus, the U.S. embassy includes pay for the additional hours in the employees' salary. A comparison of RFE/RL and U.S. embassy compensation plans for German nationals indicates that compensation for FSNs may not be significantly different than that for RFE/RL's German national workforce.

OVERHEAD COSTS OF FEDERALIZED ENTITY COULD REMAIN HIGH

OMB is optimistic that federalizing RFE/RL will significantly reduce overhead costs in Germany as personnel and other administrative functions are assumed by USIA. However, we have not seen any studies that indicate the extent to which this reduction might occur and the resultant savings that would accrue.

Even if one assumes that the number of RFE/RL's staff would be cut in half, to about 700 staff, it would be larger in size than the staffs of many embassies. Thus, it is reasonable to expect that RFE/RL would need to maintain support staff to handle some of the administrative burden. For example, personnel would be needed to manage the training and benefits for staff located in Germany.

Additionally, as a federal organization operating overseas, RFE/RL would be under the charge of the U.S. embassy or consulate. Like other U.S. agencies, RFE/RL could request administrative support, at a cost, from the Embassy in Bonn, the Consulate in Munich, the State Department's Regional Finance Center, or a Regional Administrative Management Center.[4] This support could be for functions such as payroll, procurement, or management of the housing program. For example, all VOA employees in Germany are dependent on the embassy for administrative support and reimburse the mission about $168,000 a year ($4,500 per person) for its services.

State Department officials told us that to the best of their knowledge, no one had yet considered how this relationship would work, what impact this might have on the administrative capabilities of the State Department's facilities, and what this support would cost.

Furthermore, this would come at a time when the State Department is significantly reducing its presence in Germany. If State did not assume these administrative duties, RFE/RL would need to retain more staff to continue these activities.

RELOCATING RFE/RL TO THE UNITED STATES OFFERS THE POTENTIAL FOR SAVINGS

RFE/RL is expensive primarily because it operates overseas, pays a number of allowances to expatriate U.S. employees, and abides by strict German labor laws. The legal structure of the organization--whether it is a private company or a U.S. federal entity--would affect the type and level of allowances and benefits granted but would not alter the fact that operating in Germany is inherently more expensive than operating in the United States.

In 1976 we reported that employing U.S. citizens at Radio Liberty cost 51 percent more and employing local employees

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[4]Through the Foreign Affairs Administrative Support Program (FAAS), an agency reimburses the Department of State for administrative support services.

cost 39 percent more in Munich than in New York.[5] In 1992, the U.S. Bureau of Labor Statistics calculated that at $25.94 an hour, German hourly wages and benefits were the highest among 13 industrialized countries. U.S. compensation ranked 13th at $16.17 (a 38-percent difference from Germany's hourly wages). Furthermore, the average workweek in Germany is 38 hours with 42.5 days for paid vacations and holidays. U.S. workers, on the other hand, generally work 40 hours a week with only 22 paid vacations and holidays.

Maintaining federal employees overseas is also expensive. Personnel cost data from the State Department indicates that the cost of creating a new position for federal employees overseas is significantly higher than the cost for the same level employee located in Washington, D.C. The difference is largely due to the allowances and benefits U.S. employees receive overseas. In Munich, for example, all federal employees receive free housing or an allowance (up to $15,400 for an individual and $29,000 a year for a large family); education for their dependents (costing between $11,000 and $13,000 per student); a variable cost of living adjustment (which is currently about 10 percent of spendable income after benefits); home leave and transportation costs for one round trip to the United States for each family member every 3 years); and commissary privileges at U.S. military installations.

Furthermore, FSNs receive benefits not generally given to workers in the United States, including a Christmas bonus of 7 percent of the salary; a vacation bonus of 5 percent of the salary; a wedding benefit amounting to approximately $425; length of service gratuities of 12.5 percent of the annual salary at 25 years and 25 percent at 40 years; and a meal allowance of about $240 per year. These costs would not be incurred if RFE/RL were moved to the United States.

We have not received any information indicating that RFE/RL could not conduct its mission from the United States. We reported in 1976 that RFE/RL was technically capable of transmitting from the United States but that intangibles, such as the proximity to Eastern Europe and a close emigrant community, would need to be weighed against the

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[5]Suggestions to Improve Management of RFE/RL (GAO/ID-76-55, June 25, 1976)

cost savings of moving the operation to the United States. Since that report was published, much has changed in Eastern Europe and the former Soviet Union. Access to information, events, and people is easier. Therefore, these intangibles may be less important now than before.

DIFFICULTY IN ESTIMATING COST OF DOWNSIZING AND FEDERALIZING RFE/RL

Given the limited information available on the executive branch's consolidation proposal and the numerous unanswered questions, our rough estimate of the cost of downsizing RFE/RL is about $130 million. This estimate includes all personnel costs such as severance and pension, associated with terminating approximately 50 percent of RFE/RL's staff and closure of two transmitter sites in Germany.

However, these costs could increase or decrease depending on such factors as:

-- the outcome of the unresolved issues,

-- the actual number of people to be terminated, and

-- the number of transmitter sites to be retained.

UNRESOLVED ISSUES COULD AFFECT TERMINATION COSTS

Whether the U.S. government could assume the assets and liabilities of the corporation prior to federalization illustrates how uncertainties could affect the cost of downsizing RFE/RL. Among the uncertainties is whether RFE/RL would have to honor its personnel liabilities--such as severance pay and pensions--before the company is federalized or whether the U.S. government could assume these liabilities. For example, if RFE/RL has to honor its personnel liabilities prior to federalization, we estimate that such costs could increase by about $58 million. If this is not the case, the near term costs will be less. However, over time, these liabilities will continue to grow.

COSTS TO TERMINATE EMPLOYEES DIFFICULT TO DETERMINE

The complex procedures involved in terminating employees--especially in Germany--and the absence of any plan detailing how many people would be terminated and where the cutbacks would occur--makes it difficult to determine the cost of downsizing RFE/RL. The actual cost of downsizing could increase or decrease depending on the level of benefits paid to terminated employees, and the size of the cutback.

On an individual basis, we cannot accurately calculate how much RFE/RL would have to pay each of its terminated employees. In addition to severance pay, employees are eligible for "social compensation plan" payments. The amount of the benefit is negotiated by the works council.[6] We were informed that such compensation could equal 100 percent of the severance pay.

Another personnel issue affecting costs relates to RFE/RL's unfunded pension liability. We calculated the company's pension liability as of October 1995, assuming that it would continue to meet its scheduled annual payments into the plan. RFE/RL's pension liability as of that time is estimated at $32 million. While over the past few years RFE/RL has been able to reduce its unfunded liability through scheduled contributions, funding reductions may prohibit RFE/RL from making these contributions during fiscal years 1993-95. Thus, unfunded pension costs could rise and ultimately affect the cost of downsizing.

DECISION ON NEED FOR RELAY STATIONS WILL AFFECT COSTS

Finally, there are costs associated with shutting down RFE/RL transmitter sites. RFE/RL has three stations and one receiving site in Germany, two stations in Portugal, and one station in Spain. The costs to tear down buildings and dispose of all equipment and restore the property ranges from $1 million to $20 million per site. Until the executive branch determines which sites will be retained and which will be closed, reliable cost estimates can not be made.

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[6]The works council safeguards the interest of the employees in dealing with the employer. It is an elected body in all establishments that have 5 or more permanent employees.