

**Congressional Views
U.S. Representative Steve Buyer
U.S. Representative John Hostettler**

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Not available at time of printing

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Congressman Hostettler acknowledges the importance of the work the Commercial Activities panel is doing. He states that there are some good aspects to the A-76 process, but focuses on one particular drawback. He believes the A-76 process very often unduly removes the judgment and expertise of those most close to the question, that is, the local activity.

The Congressman cites the success of the Crane Naval Surface Warfare Center, which began a process to review and examine its core competencies and the demographics of its work force. The pilot project is predicated on a broader, more holistic approach, to achieve savings and optimize mission. Crane's pilot activity to pursue Business and Process Reengineering has reduced costs by an average of 27%.

The A-76 process, standing alone, appears to do little to enable an organization to perform its mission more efficiently. To be effective, the A-76 process must be utilized as a subset of a broader management approach – an approach that considers the mission of the facility, the particular workforce characteristics, and the expertise of the local commander.

Panel 1
Strategic Sourcing/Business Process Reengineering--Crane Division,
Naval Surface Warfare Center Case Study

Crane is a high-technology acquisition and support organization serving a broad customer base in the areas of electronics, electronic warfare, and ordnance. Crane is the area's second largest employer with about 3800 Navy and Army civilians and 60 military. Crane is a Navy Working Capital Fund activity with an annual budget of over \$800 million. Over 98% of Crane's funding comes from its customers. They are not mandated to use Crane, but are free to shop for best value. Simply put, Crane must operate efficiently, keep labor rates low, and technical capability high or lose its customers.

Crane initially announced 576 positions for study under A-76. However, due to the high level of integration required across these functions, Crane proposed to conduct a business and process reengineering across the entire organization, including inherently governmental positions. Crane became a pilot for B&PR in April 1998, with the goal of achieving the same cost savings goals expected from A-76. B&PR is a major initiative at Crane--since B&PR began in March 1998, Crane has spent \$5.3 million for in-house study teams, \$3.6 million for consultants, and \$4.8 million for implementation. This \$13.7 million has come out of Crane's own overhead budget as an internal investment.

B&PR at Crane is very structured, including the composition of the teams, reengineering methodology used by the teams, and review of the redesign recommendations. The Deputy Executive Director is responsible for a corporate "core team" that provides the overall guidance for the project. The core team consists of a project leader, an AFGE lead, and subject matter experts, all of whom are full-time to the B&PR project. The recommendations of the team are first briefed to a Steering Team, who debates the issues, particularly the request for a budget to implement. The final approval rests with an Executive Oversight Team. There are two points in the process where the team must obtain signature approval--at the approval point for a redesign and an implementation plan--because people are about to be impacted and/or corporate funding is required.

Key milestones in the process:

- During the "As-Is high-level assessment" the process has been mapped and data collection is done to ascertain the baseline. Savings in the end will be compared back to this baseline.
- During the "Develop To-Be Assessment" the team must evaluate the potential for outsourcing the business process totally or in part, given specified criteria.
- At the "Implementation" phase, all personnel realignment is carried out in accordance with the procedures agreed to in the Labor/Management memorandum of agreement.
- A review to the senior leadership is required six months after implementation. After one year, the internal Command and Evaluation conduct an independent assessment.

The timeframe to conduct a B&PR depends on the complexity of the process. Most of the assessments have involved between 150 and 250 full-time equivalents and have taken about one year. Implementation occurs in phases but completes in about one year.

Panel 2
Privatization-in-Place--Naval Air Warfare Center,
Aircraft Division, Indianapolis Case Study

The Navy/Department of Defense included the Naval Air Warfare Center-Aircraft Division, Indianapolis (NAWC-ADI) in the 1995 base realignment and closure round. Rather than contest the closure, the City of Indianapolis proposed a creative, alternative implementation of the closure decision: privatization-in-place. The City and the Navy forged cooperative teams which based their negotiations on solid staff work and dedication to understanding and dealing effectively with issues. Progress was facilitated by strong leadership that provided the constancy to demand success and the willingness to deal personally with those challenges that could not be resolved at the staff level. The entire effort has been a unique cooperative process.

Since the City was ultimately the entity most affected by the reuse plan, they sought to create a major employment center by turning the site over to a viable commercial entity. Based on the City's demonstration of an understanding of the Navy's needs, the Navy determined it was in the best interest of both parties for the City to conduct a competitive selection process to identify a contractor capable of managing the NAWC Indianapolis site. The Navy notified Congress that it was in the public interest to award a contract to the firm selected by the City. The City was able to apply commercial practices to the selection process and complete the selection faster than a normal DOD procurement of this magnitude.

After an open competition, Hughes Technical Services Company (now Raytheon Technical Services Company), a subsidiary of Hughes Electronics Corporation, was selected by the City of Indianapolis as the corporate partner in the NAWC Indianapolis privatization effort. Raytheon has been enthusiastic in joining the effort to create an unprecedented public/private business relationship that will continue to provide easy access to the Indianapolis work force, and maintain the responsiveness that has made NAWC-ADI a valued supplier of choice to Navy program managers.

Analysis found that privatization had strong potential to reduce infrastructure and costs, minimize disruption to Navy programs, and preserve the integrated capabilities of the existing facilities and the highly-trained workforce. One time move costs associated with closure were drastically reduced. The contract negotiated with Hughes includes firm fixed price, time and materials, and fixed price level of effort type tasks. The fixed price, level-of-effort type contract resulted in 5 year fixed rates and reduced risk of cost escalation inherent in a traditional closure plan. The forces of the marketplace provide further incentives to control costs. The creation of 2000 meaningful employment opportunities for NAWC-ADI employees in the private sector, while simultaneously reducing Government payroll, was key to the projected success of the plan.

**Panel 3
Public-Private Competition--City of Indianapolis Case Study**

When Stephen Goldsmith became mayor of the City of Indianapolis in 1992, he began a program to transform Indianapolis to “a competitive city with safe streets, strong neighborhoods, and a thriving economy.”

As part of this goal, certain functions traditionally performed by the City’s government workers were opened to competition with private sector. In order to determine whether a competition was likely to be successful, the City performed a core-service analysis. Services that related to government’s core mission were distinguished from services that were ancillary to government’s central policy concerns, with non-core missions more likely to be successfully competed. After determining what was desirable to compete, the “Yellow Pages test” was conducted. If the Yellow Pages showed that several private firms provided the service, then competition was possible. Moreover, the presence of private service providers meant there were already established performance standards that could be written into a contract.

The core-service analysis and the Yellow Pages test focused resources on activities that the City did well and away from activities better performed by the private sector. For instance, management and workers agreed to get out of the business of laying concrete, putting up roadside fences and, in some cases, picking up litter.

Initially, Mayor Goldsmith created a commission led by nine members of the Indianapolis business community who led a group of private-sector volunteers and City employees to study a particular City area or department. Their goal was to improve government services by making them more efficient and less expensive, particularly by opening them to competition. The commission conducted research, investigated comparable situations in other cities and in the private sector and evaluated the local business climate. They made specific recommendations to the Mayor, who then arranged to have the proposals debated in a public forum. As a result, scores of government services were opened to competition. These included wastewater treatment and sewer operations, trash collection, street repair, courier services, fleet services, and parking enforcement.

In addition, a heralded spirit of cooperation developed between the administration and the union. One reason for the this cooperation was that for many competitions, the City provided its workers with private consultants to help them prepare their proposals. Another important factor was the incentive pay that City officials received when they outperformed their contracts. Over half of the competitions in the 1992-1999 time frame were won, at least partly, by City workers.

During the 1992-1999 period, the City cut property taxes, balanced the budget, cut non-public-safety staff levels by 43 percent, reduced red tape, put more police officers on the streets, and invested more than \$1.3 billion in the largest infrastructure-improvement program in City history.

Panel 4
Municipalities
County of San Diego and the City of Monterey Case Studies

San Diego Information Technology Outsourcing Program

Faced with budgetary constraints and technology systems lacking even rudimentary communication applications (voicemail and e-mail), the San Diego County Board of Supervisors made a landmark decision to upgrade the county's information technology program through an outsourcing partnership. On a unanimous vote, the Board hired a consortium of private companies with a contract valued at \$644 million over seven years, with contract extensions possible through three one-year renewals. This is considered the largest information technology outsourcing ever carried out by a local or state government.

The county's goal was to gain access to a world class technology infrastructure intended to support front line services for citizens to be made available around the clock via the Web. There were a number of benefits to this approach. First and foremost, the County did not have to raise the cash needed for this massive technological overhaul; instead it was spread out over the life of the contract. Also, the County benefited from the combined experience of notable private sector companies. Other benefits include:

- All current County IT employees guaranteed two years employment in San Diego County with the contractor.
- All PCs replaced within 36 months, and again within the next 48 months .
- Countywide IT performance standards that the vendor must meet--incentives for exceeding those standards and fee reductions for failing to meet them.
- The County can terminate at any time in the event of default, with contractor financially liable.

The City of Monterey: Institutionalizing Government/Government Partnership

The City of Monterey has been successfully applying City-Base concepts for over ten years, not as a private developer to generate revenue, but in a public-public partnership with their local military bases. Since the mid-1980's, the City of Monterey has been providing services to the local military organizations (Army & Navy). Cities of Monterey and Seaside formed a Joint Powers Agency to deliver municipal services to Presidio of Monterey and Ord Military Community. Services contracted to date include childcare support, maintenance of streets; buildings; water, wastewater, and stormwater systems.

Partnerships have created opportunities for the military as well as the communities, and these collaborations provide substantial cost savings and enhance the quality and operational effectiveness of the military missions in Monterey. Because of laws that prohibited such partnerships, it has not always been possible for the military to contract out services to local agencies or cities that could provide services at a lower cost. In Monterey, new trial legislation has allowed local entities to move forward with ideas and concepts on cooperating to save dollars and advance the missions of all involved.

Panel 5
**Performance Measurement, Bid-to-Goal, Transitional Benefit Corporations,
Employee Stock Ownership Plans, and Privatization**

Performance Measurement

Performance measurement is critical to determining the success of outsourcing efforts. Measuring performance through the use of an “outsourcing scorecard” helps define what is important, maintains focus, and provides for objective tracking. Measures should be clear, complete, few, and contain measurable terms. The scorecard provides for measurement in six areas: (1) quantity; (2) quality; (3) timeliness; (4) cost; (5) satisfaction; and (6) conformance.

The elements of the scorecard include:

- Categories—elements critical to the customer’s business objectives
- Attributes—tangible, actionable aspects of the category
- Metric—numerical measure of the attribute
- Tool—data collection technique
- Rating—outcome compared to objective

Bid-to-Goal Process

The Bid-to-Goal process involves the development of extensive documentation as to the cost of current operations and maintenance services and the identification of potential savings that could be realized via optimization. HDR developed the Bid to Goal process to be a viable alternative that has been employed extensively with state and local governments. The Bid to Goal process contains eight steps (nine steps if pursuing this with DOD, which involves inherent national defense activities) to produce competitive results.

In addition, Bid-to-Goal involves the establishment of three criteria that must be met by public employees to avoid bidding against private companies. The criteria include the provision of a (1) goal reflecting the level of savings needed to be competitive with potential private proposals (including normal profit), (2) scope of work describing the level of service and (3) firm schedule for submitting a jointly signed offering (management and labor endorsed) and for accomplishing the promised savings. In the event that any of the three criteria are not met, the “purchasing entity” has the option of moving to direct managed competition or direct conversion.

The Bid-to-Goal ground rules are to:

- Explicitly define service levels, including regulatory requirements and safety standards;

(Panel 5 Continued)

- Formulate an independently derived budget to maintain the service levels and be competitive with likely private-sector offerings;
- Specify default consequences for inadequate performance; and
- Establish a performance monitoring and reporting program.

Transitional Benefit Corporations

A Transitional Benefit Corporation (TBC) is a vehicle to promote the transfer of designated, generally underutilized, government assets, such as real estate, equipment, and intellectual property, to the private sector and to enable associated government employees similarly redeployed to retain and accrue their public benefits.

The TBC Method delineates a legal and business framework for effecting such transition using a non-profit umbrella structure. The TBC Method provides a structured methodology to analyze selected government operations with a view towards enhancing efficiency by reducing costs; redistributing workload; and maximizing asset utilization. Pursuant to the TBC Method, an umbrella organization is created that facilitates the smooth transition of public sector assets and personnel to the private sector by attracting financing; incubating new business units and creating spin-offs; commercializing government-owned intellectual property.

Employee Stock Ownership Plans (ESOP)

Under an ESOP, employees take over, or participate in, the management of the organization that employs them by becoming shareholders of stock in that organization. In the public sector, an ESOP can be used in privatizing a service or function.

Mr. Neece will discuss how ESOP privatization has been employed as an alternative to traditional A-76 approaches, and how the ESOP approach can be used to enhance existing A-76 procedures. ESOP privatization has been successfully employed in the privatization of the Office of Personnel Management's Office of Federal Investigations in 1995-6, where it has produced proven cost savings and operational/quality improvements in the performance of Federal civilian background and security investigations. The ESOP approach has also been used in the context of BRAC activities to transition 425 Navy environmental remediation employees to the private sector in 1999, as well as to provide a means to facilitate the closure of the Army Management Engineering College in 1998. The USPS has just announced its intention to proceed with the ESOP Privatization of its EEO investigations function. Additionally, the OMB and DOD have recently recognized that ESOP approaches can enhance competition and provide a more employee friendly approach in the current A-76 process. ESOP approaches can be combined with non-profit approaches to provide future comparable retirement security for current federal employees impacted by A-76 procedures.

Individual Speakers

Daniel W. DeHayes, Professor, Kelley School of Business, Indiana University, Bloomington.

Subject: Business and Process Re-Engineering at the Crane Naval Surface Warfare Center

Professor Hayes discusses the “top 10” key success factors for carrying out business process re-engineering and the associated organizational change. These factors are as follows: (1) Rigorously Performing the "As is" and "To Be" Analyses, (2) Searching Thoroughly for Best Practices, (3) Dealing with Labor Positively, (4) Sustaining Top Management Support, (5) Anticipating Middle and Senior Management Resistance, (6) Selecting an Experienced Project Manager, (7) Engaging the IT Organization Early, (8) Being Willing to Deal with Changes in the Business, (9) Communicating, Communicating, and (10) Retaining Project Control Internally. Professor Hayes concludes that the Crane effort was conducted very well and therefore has the potential to effect real improvements in efficiency at the facility.

Robert Gordon, Senior Management Analyst, MEVATEC Corporation

Subject: Continue A-76 Cost Comparisons and Implement Certain Improvements

Mr. Gordon urges the Panel not to discontinue A-76 cost comparisons either entirely or until the process can be “fixed”. He argues that to stop performing cost comparisons in favor of some other alternative(s) without involving competition will not produce savings. The same mandates of competition that drive businesses in the private sector to focus on costs must be applied to the public sector as much as possible. Mr. Gordon makes a number of recommendations for improving the A-76 process including the following: (1) centralize execution, starting with packaging, (2) provide intensive training to “allied” activities and grade their performance, (3) accurately define and implement “performance-based” tasks, (4) develop component-wide performance measures by functional area that must be used, (5) emphasize the stewardship responsibility of managers and supervisors to save resources, and their responsibility to the “corporation”, not just to the workforce, and (6) institute data systems to capture cost by service/product and train personnel to capture the data.

(Individual Speakers Continued)**Mike Locklin**, President, AFGE Local 2302**Subject:** Experience with Contracting at Fort Knox

On June 1, 2000, Armor Center Support Services started a public works and logistics contract at Fort Knox. This contract has a one-year term with four one-year options. It's worth about \$100 million over five years. As a Quality Assurance Evaluator Mr. Locklin judges contractor performance and the quality of the services that they perform. He provides testimony on what he sees as poor work quality, sloppy oversight, low wages, lowball bidding, minimal benefits, and rising costs.

Mariann Meeks, Senior Analyst, BET Incorporated**Subject:** Improvements in the Public-Private Competition Process

Ms. Meeks has been intimately involved in numerous business process re-engineering, process improvement, outsourcing, and A-76 development and execution activities during the last 22 years. She claims that the only tool that has consistently encouraged managers to “scrub” their requirements, identifying the outcomes that are really mission and mission-related activities, and then implement those decisions is the A-76 process. However, Ms. Meeks makes it clear that the outsourcing processes needs to be modified and discusses areas within public-private competition processes that should be improved. Specifically:

- Insufficient numbers of trained and experienced people available to support the effort, both within and outside the Federal Government
- The need to conduct “strategic” analysis of agency missions prior to identification of commercial activities
- Clearer definitions of Inherently Governmental activities
- Clearer definitions of “best value” procurements as they apply to public-private competitions
- Modifications to the Administrative Appeals Process