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**Before the Commercial Activities Panel
Formed Pursuant to Section 832, DoD FY 2001 Authorization Act
Indianapolis, Indiana
August 8, 2001**

Summary

In June 1995, the Department of Defense announced that it would close the Naval Air Warfare Center – Aircraft Division, Indianapolis (NAWC), which had been in operation since World War II. The City of Indianapolis provided the Department of Defense with a proposal to allow the City to select a private sector company to run the NAWC. The Department of Defense examined the proposal and decided that the City’s plan for a privatization-in-place would be in the interests of all affected parties.

Hughes Aircraft Company’s subsidiary Hughes Technical Services Company¹ (now Raytheon Technical Services Company) took over the NAWC operation in January 1997, after it had been selected through a competitive source selection process run by the City. The privatization of the NAWC is one of a small number of privatizations-in-place.² Such a privatization occurs when a private sector company takes over the operation of a facility formerly owned and operated by the government. The Indianapolis privatization-in-place has been the subject of a case study³ and has been examined in a General Accounting Office (GAO) report.⁴

When examining opportunities, a company asks certain preliminary questions. First, the company wants to know whether the opportunity is “real.” Next, the company examines whether the opportunity should be pursued. Indianapolis presented the rare situation where a city would be conducting a source selection. Previous Indianapolis experiences in privatization were important in deciding that Indianapolis would be able to conduct the source selection and that the opportunity was real. The employees, facility, and work performed at the NAWC were factors in deciding that the company should pursue this privatization opportunity. However, the facility would be facing a decreasing defense workload; therefore, another line of inquiry was whether reengineering opportunities existed to reduce current operating costs and whether the company had the ability to bring new work into the facility. This was part of the company’s due diligence inquiry. The conversion of the NAWC has been successful, and much of the success is due to the City of Indianapolis and its creative fashioning of the source selection process.

Potential Closure

As a result of the 1990 Defense Base Closure and Realignment Act, a commission was established to study and designate facilities deemed excess to the defense industrial base and to facilitate the closure of the designated facilities in order to streamline the defense industrial base. The Mayor of Indianapolis, Stephen Goldsmith, became aware that the NAWC might be closed because it had come under scrutiny during the federal government’s 1993 reviews, and he studied how to retain the facility and the employees.

The February 28, 1995 base closure list included the NAWC. Mayor Goldsmith wanted closure done through a privatization process in which the city would assume ownership of the site, facilities, and equipment, and select a private sector company to perform work under a DoD contract.

Some government officials took the position that the NAWC should be closed before considering options, including privatization; however, the City pushed for privatization before closure because of the potential impact upon key employees, who might depart for other employment opportunities. These employees were a significant attraction for private sector companies examining the NAWC.

In July 1995, the Base Closure and Realignment Commission issued its findings, and recommended that the NAWC be closed and its workload, equipment and facilities be transferred to the private sector or to the local jurisdiction. This recommendation opened the door to privatization.

The City established a Reuse Planning Authority to administer the privatization, and it is important to note that Indianapolis managed the NAWC privatization-in-place procedure as an economic development project, and not as a federal procurement. Despite this important distinction, the Navy's interests were protected because the Navy would negotiate a contract with the selected company and the Navy possessed a final veto through that negotiation.

By mid-November 1995, the Navy and the City had reached agreement on key issues. An important agreement was that Indianapolis would develop the procedures to conduct a competition for the private sector company to take over the NAWC operations. That company would then negotiate a contract with the Navy for Navy work to be conducted at the facility. The Navy wanted the transition to the private sector to occur in January 1997. A contingency plan was developed, in case the privatization was not achieved. The City of Indianapolis and the Navy entered into a Memorandum of Understanding in order to establish the roles and responsibilities of the parties during the conduct of the source selection process.

Private Sector Competition

Indianapolis was tasked with the implementation of a fair source selection process. It prepared and released a solicitation shortly before Christmas 1995. Notably, the solicitation was performance-based, specifying outcomes but allowing the private sector competitors to craft the means to achieve the outcomes. The City sought to address the objectives of all stakeholders: the local community, the NAWC employees, the Navy, and the private sector. Specifically:

- The local community desired not only to retain as many jobs as possible, but also sought new economic development, new taxes and a strong commitment from the selected company to make a long-term commitment to Indianapolis.
- Employees wanted to retain jobs, and be provided with new opportunities and growth potential.
- The Navy desired not merely a continuation of support but cost, quality, and performance improvements.

- Finally, the private sector sought an asset that would enable the selected company to achieve profitable growth and support the goals of the other three stakeholders.

Seven companies responded to the solicitation issued by the city. The competitive group was then narrowed to four companies, which were provided additional information to allow submittal of more detailed proposals. The City's review group then visited the final competitors, and each company was sent a copy of the first draft of the City's contract. At this point, one company withdrew from the competition, and the City's Reuse Planning Authority selected the winner from the final three companies.

Factors in the Success of the Privatization

Two key factors facilitated the success of this privatization-in-place. One relates to the City's knowledge of privatization and its challenges, and the other relates to the contractor's evaluation of the NAWC opportunity.

The first factor is the experience that the City of Indianapolis gained through its previous privatization efforts. This experience allowed it to craft the NAWC privatization creatively and with confidence. Indianapolis had credibility because of its past efforts, and this facilitated the agreement between the City and the Navy, including the decision to allow the City to conduct the competition to select the private sector company without using a traditional federal solicitation.

Early in the City's review, Mayor Goldsmith believed that the closure decision did not assess the true value of the facility and its workforce. He recognized the marketability of the key skills possessed by the NAWC employees and the potential transferability of these skills to non-defense work. As a result, he championed an effort that proposed an alternative based on a business case that was compelling to all stakeholders. Successful privatization efforts generally reveal that all stakeholders are involved and understand the benefits and risks in the process. The involvement of the Mayor was an important part of the process as he served as the visible champion for the privatization. A GAO report examining lessons learned from state and local government privatization efforts states that a potential privatization is best presented and sustained when a committed political leader champions it.⁵

The second factor is the fact that, in some ways, the selected contractor approached this privatization-in-place more like an acquisition or merger than a traditional proposal in response to a solicitation. Knowing that privatization-in-place does not address the issue of full facility utilization, the company conducted a review of asset utilization similar to the type of "due diligence" inquiry conducted before an acquisition of assets or a merger transaction. The review included an examination of data on the expected federal government work and an assessment of the operation's ability to win new work.

Also examined were reengineering possibilities to achieve operational efficiencies, and the opportunity to transfer work into the NAWC. Generally, a facility that is under consideration for a possible privatization-in-place is facing a decreasing defense workload. That is why closure is being considered. The facility needs to reengineer business processes to improve cost competitiveness, retain government work and, if possible, find ways to exploit the existing skills and win new work. Full utilization is facilitated if the contractor either possesses additional work that can be brought into the facility or, if through business process reengineering and improvements, the contractor can achieve cost and performance efficiencies to enable the facility to win new contracts. With these considerations in mind, Hughes examined other existing work

that could be moved to the NAWC facility and reviewed how the skills possessed by the NAWC workforce would enable the company to compete for new work.

Excess Capacity and Privatization-In-Place

In a report released in late December 1999, the GAO examined how contractors are responding to decreasing workloads at the Air Force Aerospace Guidance and Metrology Center in Newark, Ohio; the Naval Surface Warfare Center in Louisville, Kentucky; and the Naval Air Warfare Center in Indianapolis, Indiana. These have been the only facilities privatized-in-place as a result of the base closure process. In general, the contractors at these three locations face decreasing defense workloads and have either initiated or planned efforts, including bringing in new work and reengineering business processes, to reduce operating costs and improve efficiencies. The GAO recommends that the Department of Defense, when considering privatization-in-place, consider the overall cost-effectiveness of this approach in reducing excess capacity and operating costs in the combined public and private defense sectors.⁶

The GAO said that, as a general rule, privatization-in-place has not resulted in the optimal reduction in excess capacity in the defense infrastructure. This is because the work remains at the original site and is performed by the private sector, instead of closing the facility and transferring the work to other underutilized facilities in order to reduce excess capacity. At the same time, the GAO noted that privatization-in-place actions can reduce excess capacity and operating costs if the privatized facilities are used to consolidate related work from other contractor facilities. In addition, the GAO said that contractor efforts to improve business practices and contractor efforts to reduce their own infrastructures might create efficiencies in the overall public-private defense infrastructure.⁷

Increased attention may be given to privatization-in-place because of recent announcements that base closures will be examined.⁸ Although it is too early to predict what actions will be taken, base closures will be considered to free up money for buying new weapon systems.⁹ The privatization-in-place of the NAWC in Indianapolis provides lessons for other localities that may be examining privatization-in-place as an alternative to closure or consolidation elsewhere.

¹ On December 17, 1997, Raytheon Company and Hughes Aircraft Company merged and the surviving company uses the name Raytheon Company. Hughes Technical Services Company underwent a change of name to Raytheon Technical Services Company.

² DoD privatization-in-place initiatives have occurred at Newark, Ohio; Louisville, Kentucky; and Indianapolis, Indiana. Further information can be found in three GAO reports: GAO/NSIAD-97-52, *Navy Depot Maintenance: Privatizing Louisville Operations is Not Cost Effective*, July 1997; GAO/NSIAD-98-35, *Air Force Privatization-In-Place: Analysis of Aircraft and Missile Guidance System Depot Repair Costs*, December 1997; GAO/NSIAD-00-23, *Military Base Closures: Lack of Data Inhibits Cost-Effectiveness Analyses of Privatization-in-Place Initiatives, December 1999* (hereinafter referred to as “*Base Closures*”) (Appendix 1 to *Base Closures* provides a summary of privatization-in-place initiatives.).

³ James W. Wheeler and Susan M. Walcott, *The Naval Air Warfare Center, Indianapolis: A Case Study in Privatization*, Hudson Institute 1996.

⁴ See *Base Closures*.

⁵ GAO/GGD-97-48, *Privatization: Lessons Learned by State and Local Governments*, March 1997.

⁶ See *Base Closures* at 17.

⁷ See *Base Closures* at 5.

⁸ See George Cahlink *Bush team to weight closures in Pentagon review*, GovExec.com, February 28, 2001.

⁹ *Id.*