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GENERAL ACCOUNTING OFFICE

COMMERCIAL ACTIVITIES PANEL

WEDNESDAY

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The Panel met in Room 137, University Place Conference Center, Indianapolis, Indiana, at 8:45 a.m., David Walker, Chairman, presiding.

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COMMERCIAL ACTIVITIES PANEL MEMBERS PRESENT

DAVID M. WALKER, Chairman Comptroller General of the United States

DR. FRANK A. CAMM, RAND

MARK C. FILTEAU, President Johnson Controls World Services

STEPHEN GOLDSMITH, Senior Vice-President for E-Government and Strategic Development, Lockheed Martin, IMS (Former Mayor of Indianapolis, Indiana)

BOBBY L. HARNAGE, SR., National President, American Federal of Government Employees

KAY COLES JAMES, Director, Office of Personnel Management

COLLEEN M. KELLEY, National President, National Treasury Employees Union

SEAN O'KEEFE, Deputy Director, Office of Management and Budget

STAN Z. SOLOWAY, President, Professional Services Council

ROBERT M. TOBIAS, Distinguished Adjunct Professor and Director, Institute for the Study of Public Policy, Implementation, American University

I N D E X

Welcome 6

Congressional Views 8

The Honorable Steve Buyer, U.S. House of Representatives,
5th District, Indiana 8

Gail Kimball, Staff Assistant, Office of the Honorable
John N. Hostettler, U.S. House of Representatives,
8th District, Indiana 26

Panel 1: Strategic Sourcing/Business Process
Reengineering - Crane Naval Surface Warfare Center. 29

Case Study Panelists:

Duane Embree, Executive Director 29

Bill Mason, President of American Federation of Government
Employees, Local 1415 36

Bob Matthews, Business and Process Reengineering
Project Leader 41

CAPT (Sel) Frank Aucremanne, Director, Public
Works Directorate 49

Panel 2: Privatization-in-Place - Naval Air Warfare
Center, Aircraft Division, Indianapolis Case Study 78

Case Study Panelists:

Jim Wheeler, Business Consulting, Arthur Andersen, LLP 78

Michael Sargent, Business Consulting, Arthur
Andersen, LLP 82

Mike Mutek, Senior Vice President, General Counsel &
Secretary, Raytheon Technical Services Company 89

Donna Chastain, Business Development, Raytheon
Technical Services Company 93

Panel 3: Public-Private Competition - City of Indianapolis, IN Case Study106

Case Study Panelists:

Skip Stitt, President, Competitive Government Strategies, LLC (former Deputy Mayor of Indianapolis) 106

Steve Quick, President of American Federal of State, County, and Municipal Employees, Local 725114

Panel 4: Municipalities - County of San Diego and the City of Monterey Case Studies. 142

Case Study Panelists:

Tom Boardman, Chief Technology Officer County of San Diego, CA. 142

Fred Meurer, City Manager, Monterey, CA148

Panel 5: Performance Measurement, Bid-to-Goal, Transitional Benefit Corporations, and Employee Stock Ownership Plans.164

Panelists:

John Williams, Managing Director and Senior Vice President, HDR, Inc. 164

John Meason, New Mexico Technical University 176

Roger Neece, President, ESOP Advisors, Inc. 181

Individual Speakers. 195

Dr. Dan DeHayes, Professor Kelley School of Business,
Indiana University 195

Robert Gordon, Senior Management Analyst,
MEVATEC Corporation 198

Mike Locklin, President, American Federation
of Government Employees, Local 2302 203

Mariann Meeks, Senior Analyst
BET Incorporated 207

P-R-O-C-E-E-D-I-N-G-S

CHAIRMAN WALKER: Please be seated so we can go ahead and get started. My name is Dave Walker. I'm Comptroller General of the United States, head of the General Accounting Office. On behalf of my colleagues and members of the Commercial Activities Panel, we would like to welcome you to this Field Hearing dealing with the issue of commercial activities and sourcing alternatives. I have a few introductory comments before we get started. We have a very full agenda today. As most of you know, Congress last year enacted into law provisions that required myself as Comptroller General to convene a panel to look at the policies and procedures governing the transfer of commercial activities from federal government personnel to a federal contractor

Importantly, the statute authorized the Panel to look into a number of areas and gave us a very broad mandate, and in fact we are looking at it from a comprehensive prospective. We are looking at this as a sourcing issue, not necessarily an outsourcing issue, and focusing more from a strategic prospective, but also considering obviously A-76, which is the process by which public private competitions are currently engaged in.

The Panel has agreed that our mission is to improve the current sourcing framework and processes, so that they reflect an appropriate balance among the interests of the taxpayers, the government, federal employees, and the private sector.

Our first public hearing was held on June 11th. We are having this hearing today. We're having another hearing next week in San Antonio, Texas.

We felt it was important to get into the real world and outside "The Beltway" and on to the front lines and hear from people who have firsthand experiences dealing with various

sourcing strategies. And not only A-76, but other innovative approaches including partnership approaches.

So, we're here today to listen. We're here today to learn. We want to be able to interact with those that are presenting to us. I think everybody should have a copy of the agenda for today. It's an ambitious one, and we're looking forward to it.

So, with that, before we start with our first panel, I would like for each of the Panel Members to introduce themselves as to who they are and who they are with, because I think there's only one Panel Member that's probably known in Indianapolis, and that's Steve Goldsmith who needs no introduction. By the way, Steve will be here. His flight is coming in this morning; he should be here shortly, assuming of course that the airlines are operating reliably, which I know can be a debatable presumption.

But if you can, Stan, do you want to introduce yourself?

INTRODUCTION OF PANEL MEMBERS

PANEL MEMBER SOLOWAY: I'm Stan Soloway. I'm President of Professional Services Council, former Deputy Secretary of Defense.

PANEL MEMBER KELLEY: I'm Colleen Kelley, I'm the National President of the National Treasury Employees Union, representing federal employees in 25 agencies.

PANEL MEMBER JAMES: Good morning. My name is Kay James. I'm the Director of the Office of Personnel Management, and I've been charged by the President to work in conjunction were other federal agencies to resolve some of the most important and exciting issues in Washington related to human capital.

PANEL MEMBER TOBIAS: I'm Bob Tobias. I'm a professor at American University, and I have a long-standing interest in the field of sourcing, outsourcing and federal employees, and federal employee issues.

PANEL MEMBER HARNAGE: I'm Bobby Harnage, National President of the American Federation of Government Employees, representing about 600,000 federal and D.C. employees.

PANEL MEMBER CAMM: I'm Frank Camm. I lead sourcing work at the Rand Corporation.

PANEL MEMBER FILTEAU: I'm Mark Filteau. I'm President of Johnson Controls World Services.

PANEL MEMBER O'KEEFE: I'm Sean O'Keefe, Deputy Director of the Office of Management and Budget.

CHAIRMAN WALKER: I'm pleased to say that we have 10 of the 12 Panel Members that will be joining us today. I think that's a testimonial to a number of you who are going to be presenting today.

With that, I'm pleased to have the Honorable Steve Buyer here, a member of Congress from the 5th Congressional District of Indiana; home turf, and I might add a client, since GAO works for the Congress it's always good to hear from clients, and we're anxious to hear what you have to say. Please proceed.

CONGRESSMAN BUYER: Thank you very much. I would like to welcome all of you to Indiana. If you will notice, we have no immigration policy into our state, and spend all the money you can.

(Laughter)

It's also a pleasure to see Sean O'Keefe here. We have worked together as I have chaired the Military Personnel Subcommittee Panel, and served on that committee for over eight years.

And Sean, you did great work for the country. And I look back at the tough times that we had during the sexual misconduct that was occurring at our training facilities, and you worked with some really tough issues to help us in the military justice issues, and I want to thank you for that.

With regard to the GAO and Congress, let me extend to you on behalf of many of my colleagues, not only does the Executive Branch tap you, but you're right, Congress taps you often, and not every problem requires a legislative solution.

And you help us sometimes to find the difficult, and you are one of our avenues of approach that we use, and you have a lot of very good and valuable employees. So, please, extend our appreciation to them for the work that you do on behalf of the country.

I'm testifying today because Indiana is home to both Crane Naval Surface Warfare Center, and Grissom Air Reserve Base. I'm also Co-chair of the House Guard Reserve Caucus so a lot of my testimony here today will be framed from the national security prospective.

In 1999 the Air Force conducted an A-76 study regarding 108 positions at the base operations functions at Grissom Air Reserve Base.

The base operating functions including areas such as base supply; property maintenance; airfield maintenance and management; weather functions; traffic management and motor vehicle management.

In June of 2000, the Air Force reached a final decision on the 108 jobs at Grissom Air Reserve Base, and the result was awarding the contract to Satellite Services, a private company. I joined the union in the appeal. Now, note that I am also a conservative Republican of whom the unions enjoy playing with. But I joined them in that appeal because the process was not right and it was not fair in how these individuals were being treated.

My staff and I have also gone down and we visited Crane Naval Surface Warfare Center in Crane several times, and visiting with John Hostettler who's a member of Congress. The employees of

Crane are also hard working and dedicated Hoosiers, and they are part of what I call the military family.

It is my belief that the A-76 process is flawed, and it's grossly unfair. As such, I have been actively working to address what I call "a fairness issue." Earlier this year I expressed my concern not only by letter, but personally with the Office of Management and Budget Director Mitch Daniels, and requested that OMB revise the rules with regard to the A-76 process. I now make the same appeal before this Panel.

Since its inception, there have been numerous hearings, discussions, debates, and testimonies on the A-76 process over the years. Personally, I'm rather skeptical about the savings estimates to be reaped through the A-76 process.

Furthermore, I believe that savings alone should not be the overwhelming force in any decision that adversely affects the lives of American working families, and/or national security. This is especially true since the civilian work force has consistently delivered reliable and proven in their support of the United States armed forces.

As I said, I believe that many of these civilians who work for the Department of Defense are part of the military family; the military retirees, members of the reserve components, or dependents or former dependents of military personnel. Many of those individuals also have prior service, so they understand time of the essence.

And as I would travel military bases and share with all of you, I am a lieutenant colonel in the Army Reserves. So, when my colleagues get to go on vacation and do other things during Easter two-week break, I go on active duty. And when I do that, I take the opportunity to speak with the commanders, and I ask them about the A-76 process. And I will share with you that none of them like it. They also, if you give

them their preference, they want the support of the military family, people who understand that time of the essence.

So just to shove them aside through an A-76 process that I deem is unfair, there is an intangible benefit in there. And I don't know how you quantify the intangible, but I do know that if I were that commander, I would define it as a loyal force that provides advantage to me at time of need, and at time of crisis. And that's usually when you call upon the military force. It's not when it's the blue sky and windless day and calm waters. It's when there's a crisis.

These ties to the military are special and serve to reduce workforce friction with the department that is very unique and structured, as a structured culture compared to other federal entities.

I'm also concerned because the mission of the Department of Defense is dedicated to ensuring our national security. I have grave concerns regarding any process that fragments the organization and degrades or diminishes the Department's ability to accomplish its mission, and that is fighting and winning the nation's wars.

Simply put, the military family knows the business of national security, and their business cannot be "outsourced" without some degradation of the department's ability to provide defense. Equally important, the A-76 process has not been implemented uniformly. While the Department of Defense has aggressively used the A-76 process, other federal agencies have instead relied on management improvement techniques such as reinvention, reengineering, and consolidation as recommended in the National Partnership for Reinventing Government (NPR).

As a member of the House Veterans Affairs Committee, I can enthusiastically report that the committee annually conducts oversight hearings on the progress and savings of the Department

of Veterans Affairs, and the Department of Labor's Veterans Employment Training Service.

As a result of the active oversight under the NPR, it is very evident to me and other members of Congress on that committee, that these agencies have indeed responded to the challenge and provided more efficient services at a reduced cost.

I would encourage this Panel and the Department of Defense to afford its civilian government employees the opportunity also to rise to the occasion of providing better services at a reduced cost through the NPR, before conducting future A-76 studies.

If we are going to turn to the government civilian workforce and place demands upon them and say we want you to think and act and be more like a business entity, when you place those demands on them and they deliver that bid, it's not successful, because there's some problems, in that some things that are required to be bid on, nobody bid into that.

Furthermore, this process as currently administered is grossly unfair for the most efficient organization "in-house bid." For example, in the first round of A-76 studies conducted by the Air Force Reserve Command during the late 1980's, the Air Force Reserve Command did not include any costs for overhead operation in the in-house government estimate for those studies.

However, in the 1996 Office of Management and Budget, at the request of private contractors, there was a revision of the A-76 process so that the in-house bid was required to add 12 percent for overhead, while the contractor did not have this same requirement.

This clearly violates the spirit of the intent of the A-76 circular that mandates the process be a fair and realistic comparison.

Once that was done, that in-house bid then began to fail. It made those bids noncompetitive in the process. And that's why I call it, Mr. Walker, so grossly unfair.

In another example, the MEO bids for the A-76 cost comparisons for the base operation support function at Grissom Air Reserve Base were required to be submitted and finalized by December 3rd of 1999. Despite this deadline, the MEO bid was subsequently revised on April 20th of 2000, and on May 2nd of 2000, with no subsequent revisions of the contractor's bid.

The May 2, 2000 revision required the MEO to incorporate in its final bid, the Office of Personnel Management's 2000 General Schedule Rates of Locality Pay, Rest of the United States, dated May 1, 2000.

Conversely, the contractor used the Department of Labor Wage Determination, No. 94-2195, (Revision 11), dated August 3rd of 1999. That was actually based on a December 1998 labor and wage statistic for the Kokomo area. As such, the MEO incurred the Office of Personnel Management mandated labor and wage increases for the fiscal years 1998, 1999 and 2000.

The subsequent mandated OPM labor and wage increases for the MEO bid, compared to the 1998 labor and wage survey data used by the contractor, provides the contractor an unfair advantage in calculating labor and wage costs.

Again, these mandated revisions to include the most recent OPM wage and labor data compared to the three year old Department of Labor data, clearly violated the spirit and intent of the A-76 process to be "fair and a realistic comparison."

In addition, the bidding contractors were allowed to use a significantly lower 120-day orientation cost, compared to the historical advantages of the A-76 cost comparison studies.

The contractor stated its orientation costs for the 120-day orientation period would be a total of \$21,751. In comparison, the most recent A-76 studies conducted by the Air Force Reserve Command, used the 120-day orientation cost that ranged from a hundred seventy thousand to two hundred and twenty-five thousand. This is clearly distorted, and only adds to the critics that claim that bidding contractors "low ball" their bids, and in return raise the costs of their services once the contract is awarded.

In many cases, security clearances are also required by some of the personnel hired by a contractor to allow access to sensitive areas, or access to certain types of information.

Over the past several years there have been extremely large backlogs in the Defense Security Service for military and civilian personnel seeking these security clearances. Again, the cost of these clearances and the costs resulting from the delay of granting security clearances to the contractor are not even considered.

Even if the contractor rehires a government employee who possessed a valid security clearance, they would then need to be revalidated.

In testimony before the Senate Armed Services Committee on April 6th of 2000, the General Accounting Office testified that: "in February, 1999, representatives of several contractors complained to the DSS about the time taken to clear their personnel, pointing out that the delays threatened to affect some facilities abilities to effectively to perform on contracts and meet cost schedules."

GAO testimony further states that: "the Joint Security Commission reported that delays in obtaining security clearances cost DOD several billion dollars because workers were unable to perform their jobs while waiting for a clearance."

Where are our cost savings if we're not going to be efficient?

Given the above mentioned discrepancies, I believe the current A-76 process violates the spirit and intent of the A-76 circular, to provide an evaluation that ensures all considered, and I quote, "all costs are considered and that these costs be realistic and fair."

I urge this Panel to recommend that the A-76 process be revised to reflect the intent of the circular. I'm now going to offer some constructive recommendations to this Panel.

1) Either eliminate the 12 percent overhead incurred by the MEO's, or cut it in half to six percent to make their bids more realistic and competitive.

2) All labor and wage costs and competitive data reflect apples to apples comparison, as opposed to the present apples to oranges comparison.

3) All bidding contractors adhere to a realistic minimum or standard orientation cost schedule in order to prevent this "low ball" bidding that I think is occurring.

4) I recommend that these unforeseen costs, such as those regarding the cost of obtaining security clearances, as well as delays in obtaining these security clearances be included in a contractor's bid.

Lastly, I urge this Panel to recognize the value of the congressional oversight of the National Partnership for Reinventing Government. Clearly, other federal entities have pursued this option, and have improved services with a reduction in cost to their parent department.

So, the bottom line, ladies and gentlemen, is that I am pleased that you are here. I supported the creation of this panel in Congress and wanted this Panel to come out and look at the A-76. I did not want Congress -- and there are several pieces of

legislation in Congress - I didn't want for us in Congress to say well, we're just going to make these legislative corrections without you going out and actually getting into the weeds and finding out where the problems are.

A-76 in different departments and in agencies of government has, I believe, proven itself valuable, but in other places it has not. And in the arena of providing for our nation's national security, the importance of that military family, as I said earlier, is an intangible benefit that's very hard to measure, and just to say quantify it in a cost comparison based on the dollar, makes me cringe, because that military family is extremely important when it comes to providing that support. And I don't know how you do it. But I can tell you when you have an opportunity to speak to those commanders out there in all of the services, they will sing praises of the civilian work force that's been there, and they'll put in their overtime and they'll do whatever is necessary to deliver the force and then to bring it home.

So thank you very much for my opportunity to testify, and I'll take any question you may have.

CHAIRMAN WALKER: Thank you. I have one, and then I'll turn it around.

Obviously you had some concerns with regard to this particular public private competition. One of the things that you're probably aware is that while the contractors can file a bid protest with GAO, the employees cannot. Federal employees cannot.

Is that something that you are concerned about? Because the issues that you raise are typically things that might end up getting reviewed by GAO in a bid protest. Under current rule they are not allowed to file.

CONGRESSMAN BUYER: The employees who are represented by the local union, and I joined in their appeals, but, you know, what was difficult, and even when I spoke to the Chief of the Air Force Reserve after the process was complete, sort of did a look back. I didn't want to taint the process while in the adjudication.

He was frustrated. He was frustrated because even in the appeal process he has to go by the guidelines. This is one of these processes whereby you get a choice in life. You can control the substance or you can control the process. For which do you chose?

I was naïve. Before I ever went to government was: Let me control the substance; I can win. It's pretty naïve. Let me control the process. If I can control the process then I can manipulate the outcome, and thereby control the substance.

That's what occurred in 1996. They went to too much outsourcing at the so-called cost savings as they were reducing the military, and therefore its work force. So when they put -- Mr. Walker, when they put these parameters in, even though it would then go to an appellate process, the military, when they would look at the appeal process, their hands were pretty well tied, were some of the complaints. So it just became sort of a mute process. It's unfortunate.

CHAIRMAN WALKER: Others have questions?

PANEL MEMBER SOLOWAY: When you talk about apples to apples comparison, I think one of the issues we are looking at is on both sides, where are the inequities of the process, particularly from the cost accounting standpoint, but also as you said, the intangibles and the non-cost factors that actually may be measurable, but aren't really cost focused.

Have you looked at or talked to any of the folks in the private sector involved in these, about the ways in which the

process itself, as you said which is narrowly defined parameters, drives them to cost base because it requires a cost to cost?

We are looking of questions of should the decisions involve a best value judgment on both sides? You may have an intangible for a military environment where you need to maintain the service esprit de corps for the military family, and you may have on the other side technology requirements, and technology skill sets that are difficult to quantify in the government because they don't hardly exist.

Have you looked at that kind of a balancing act to get away from the cost comparison? Statutory requirements, you know, convert the A-76 cost savings.

CONGRESSMAN BUYER: Have I thought about it? No, I have not. I welcome what you just said.

Any recommendations that you also come up with, with regard to legislative changes, we're eager to look at. The Armed Services Committee debated the A-76 issue last week, as you're well aware.

You know, it's hard for us to be able to make a legislative change, and I suppose we could do it strictly to the Department of Defense, but, I can almost see then the FAA, for example, lining up and saying well, this is an FAA family. You know, you can turn to another department and say --

PANEL MEMBER SOLOWAY: My question was actually a little bit less specific, when you make these decisions, when the government activities are making the decisions, whenever the government is making any decisions, do you think they ought to be looking at a broader value equation?

CONGRESSMAN BUYER: Absolutely. Yes. Yes, I think you should.

CHAIRMAN WALKER: You're next, Sean.

CONGRESSMAN BUYER: In some form of -- I'm sorry, Sean -- but in some form of latitude, that's what I also heard from the commanders, there's no latitude in this process.

PANEL MEMBER O'KEEFE: Pleased to see you again, sir. Thank you for your thoughtful testimony and your comments.

The summary that I would offer on your observations about this process, is a Churchillian twist, this is the worst form of contracting to be sure, but it's better than all the others, and there isn't much of anything else out there right now that even comes close in terms of equity and opportunity in force to reconsider questions; sort through level playing fields, all those factors. Any other forms we employ I guess as a standard practice inevitably comes up with greater fire in terms of its equities.

Having said that, there's some serious flaws and I concur with all the observations you made about it. And I guess among all the things that I find most troublesome about it, is how long it takes to get through the process, even though concerted effort is made that yes, indeed we want to go after this concerted point which was your concluding comment: Some places it works; other places it doesn't. Even if you were committed to the proposition it takes a long time, given all that, if you were to design something from scratch; take out a clean sheet of paper and determine exactly what would be the elements of a fair and open process for the purpose of competitive sourcing, what would those be, given the fact that at the end of the day what the history on this has been, as tortured as it's been, as difficult as it's been in a lot of cases, as an overall proposition verging on 60 percent of all the competitions are successfully competed by the public entities, and yet in every one of those cases whether it's public or private, on average, as I understand it from all of the analysis that's been done over the years, easily 25 to 30 percent savings relative to the original performance costs.

That speaks well, I think, of the public performance, in the sense that once liberated from a bunch of process impediments, there are different ways to accomplish the results of the original objective that was in mind, which is the outcome. How do you define and ultimately pursue those outcomes as opposed to simply following through on some competitive source.

So, as a consequence of that, there are some real virtues in a competitive sourcing alternative. But we are hampered, to associate myself with your concluding remarks, by a lot of process issues to be terribly bogged down in that area.

So, how would you design it? What would you do to achieve that objective, that outcome that I think we all want, which is greater efficiency, more responsiveness to the public we serve?

CONGRESSMAN BUYER: Sean, I thank you for your question, and Mr. Walker, if I may, I'm going to take advantage of that question and I'm going to provide some thought. I don't want to give an offhanded remark here to it, because the question, to go right to the heart -- Steve, if you had an opportunity to design a system, what would you design?

I'm going to take advantage of that 5 and I'm going to submit that to you.

CHAIRMAN WALKER: We will keep the record open.

CONGRESSMAN BUYER: All right. Thank you. I will submit it to you because that is a great question.

What I want to leave here with you is this impression: Our nation turns to the defense. We have two individuals here who work in the Department of Defense. Our nation turns to them and places certain requirements for security and our safety, protection of our neighbors, our allies, our trade routes, and those commanders have a tough job. They know what their mission is.

Then, once they are given the mission, they know what their resources are to accomplish their mission, yet someone is making some demands on them. And will there be degradation?

If that Commander steps forward and says this is not a good thing, there's really not a lot of latitude for that commander. And we're forcing some things on these particular commanders when they are saying no, I don't want this. I am not going to be able to produce certain things that I'm required to do, or there's going to be a downside. That downside also is not measured.

So when I talked about that difficult to measure that intangible to the benefit, how do you also measure the degradation? Often in defense we talk about it in cost of lives and loss of equipment. But you sure don't want to do it at the end result-- rejection.

But I'm going to take advantage, Sean, and I will send that to you. Thank you.

CHAIRMAN WALKER: Kay.

PANEL MEMBER JAMES: Thank you. That was very interesting for me, having been at OPM now for almost 22 days.

One of the things that really caught my attention, and I would ask you, if in answering, having that blank sheet of paper, what would you change, I would be most interested in hearing your thoughts on resolving the inequities that exist when one party is mandated to use OPM wage and salary data, and the other party uses three year old Labor Department data.

So, I will be looking most anxious to see your suggested fix for that.

CONGRESSMAN BUYER: Thank you.

CHAIRMAN WALKER: Bobby.

PANEL MEMBER HARNAGE: First of all, let me say thank you very much for taking the time to come in and appear before this

Panel this morning, even though it's supposed to be your time off out of Congress, the hectic pace you have kept so far this year.

I particularly appreciate your comments concerning a need to consider the human capital side of this equation. What happens to the employees, who I happen to believe are very dedicated and loyal employees, that have been working for years for the federal government, and all of a sudden we're telling them they are not necessary anymore. That's not taken into consideration nor is that cost.

I would like to follow-up on the question that Mr. Walker asked you. You talked about participating in the appeals process, but the concern that we have in that is neither you nor the employees or the employee's representative have the ability to go beyond the stage that you took it. The contractor does. The contractor can take it to court. But the federal employee cannot. Nor can the employee's representative because the employees are not seen as a bidder, as a contractor is, and therefore they have no standing in court.

We would like to see that process changed that levels the playing field. Have you thought about that?

CONGRESSMAN BUYER: I suppose -- if the employees were represented, say you have a union, I can tell you as a threshold I am not an advocate of a more litigious society. That's where I am at the threshold.

With regard to the employees, if in fact they are wronged in a process that is flawed, yet have no recourse, how is that fair, is also a threshold.

So, if in fact the employees are represented in the process, yeah, it's worthy of consideration for them to also gain access to federal court.

PANEL MEMBER HARNAGE: Along with that right now, we seem to support the A-76 process, and I think we all agree that it's a

very cumbersome process, but many of us feel that, like even at that, it's the best thing going right now.

One of the problems that we see when you go outside of that process, is normally that is no competition, direct conversion when you go outside of the A-76 process. There are some examples where it has been done and it worked very well. It wasn't direct conversion, but for the most part it resulted in direct conversion. For example, the President of the United States putting up five percent of the Fair Act this year, said convert or compete; gave the agencies an option.

Part of the A-76 process gives the employees an opportunity to participate in the work statement and other processes of the A-76. They aren't always given the full opportunity, but at least A-76 encourages it, but these other processes don't.

So, we tend to support the A-76 process, as cumbersome as it is, because, first of all, it does give us an opportunity to compete. Secondly, it does give us an opportunity to participate. And these exceptions that are coming up with something else other than A-76, do you see incorporating those two?

CONGRESSMAN BUYER: Mr. Harnage, let me go back to one of your first comments.

What I find difficult about this process, and you say, well, Steve, I support the A-76 process. I do too. But here's what I find objectionable: Is when we turn to the government employees and say, all right, we want you to compete; we want you to be more competitive; we want you to bring greater efficiencies or it's going to be outsourced. So then all the employees get together and they do an assessment. That's a difficult process for them because they are now talking about their friends; their neighbors; their drinking buddy or whatever. Somebody is going to be out on the outs. But they join in that process.

What I saw is, it was not a fruitful process. Because they put their studies together; they put their bid on the table, and they lost before they even began. Because once you add in that 12 percent overhead, they were noncompetitive.

So you asked them to go through a process for which they have failed before they ever began. That's not fair.

CHAIRMAN WALKER: Do they not have the option of cutting overhead?

CONGRESSMAN BUYER: No.

PANEL MEMBER SOLOWAY: Are you aware of where that 12 percent came from and how it was arrived at? I understand the concern about it. Plugged numbers are always -- I'm interested in how you came up with the six percent as opposed to twelve.

CONGRESSMAN BUYER: About as arbitrary as they came up with twelve.

(Laughter)

PANEL MEMBER SOLOWAY: Sean may have a better insight than I do, but my recollection is that in an assessment of dozens of A-76 studies, OMB was finding average overhead factors of one and two percent, which clearly in a lot and by any measure was exceptionally low, and there was an attempt to try to balance that out against what, if you took -- did an analysis, I know I was in the private sector at the time we analyzed it, and we thought it should be in the mid twenties.

Companies were coming in, by the way just so you're clear, they have to allocate all of their overhead in the bid. I mean, there's no escaping that. A plugged number applies to the government because of the -- I think there was some concern that there was a lot of inconsistency in how it was determined, but in the company case, companies did it all the time. They have to allocate all of their overhead appropriately.

PANEL MEMBER FILTEAU: It's regulated by DCAA.

PANEL MEMBER SOLOWAY: It's regulated and they're providing it so.

CONGRESSMAN BUYER: To break this out for a second. If you're the contractor, you're coming in, you know that the government also has to pay for the pension and other health care and other types of costs, you may come in -- and that's factored in their bid, yet the contractor is coming in; they're hiring people at a lower wage and not giving them the benefits, nor the pensions.

Now, how are you going to be competitive? How are you going to take care of people and then how do you measure the intangible benefit?

PANEL MEMBER SOLOWAY: In those cases I wouldn't disagree with you. In those cases if that happens, the question has to be answered; we're not going to be able to answer it here, is how often does that in fact happen, particularly in the contemporary environment?

CONGRESSMAN BUYER: I don't know. Our conversation is almost circuitous, because we're back now, Mr. Walker, at the beginning.

CHAIRMAN WALKER: I think we ought to allow you some time reflect upon all the Panel's requests and that Sean put to you.

CONGRESSMAN BUYER: I will do that, because I think I can best be constructive and helpful to you in the process you continue your studies across the country on the issue.

CHAIRMAN WALKER: We appreciate your coming especially during this break. And I think one of the issues you have raised as well is the issue of fundamental fairness, and the issue of how do you measure intangibles. Cost is important but it may or may not be everything, and what about these other factors that you need to consider.

CONGRESSMAN BUYER: It gives some latitude to these commanders. Thank you.

CHAIRMAN WALKER: For these commanders. But the other thing I think you raised is presumably one of the things that we are trying to achieve is most efficient organizations everywhere in government, irrespective of whether there's a public private competition or not. So that's an issue I think we need to address.

Thank you so much for your time and have a good break.

CONGRESSMAN BUYER: Thank you.

CHAIRMAN WALKER: Next I would like to welcome Gail Kimball. She is representing Congressman John Hostettler from the 8th District in Indiana. He very much wanted to be with us, but I think he's out doing fact finding in the Pacific.

So Gail has been kind enough to come and read a short statement for us, but she's not an expert on this topic so we're not going to cover you with questions on this. Thank you.

MS. KIMBALL: Welcome to Indiana. My name is Gail Kimball. I'm Staff Assistant for Congressman John Hostettler from Indiana, 8th District. I'm here from the Bloomington office and I would like to read a statement on his behalf, and some remarks about the A-76 process.

On behalf of Congressman John Hostettler of Indiana, I would like to welcome you and tell you how much he appreciates your service. Congressman Hostettler is currently in Korea observing military operations or he would have been here himself. However, the Congressman prepared in advance the following statement:

I apologize for my not being with you today. If it were not for my deep concern over the state of our military personnel and the forces that are forward deployed in the Pacific, and the fact that my trip to this region had been scheduled for quite some time, I would be with you today.

What you're working on today is of critical importance. If we are going to maintain the very best return to the American

taxpayers then we must manage our government services and assets to the best of our ability. And we must, from time to time, examine whether our management practices have kept pace with our changing world.

As you know, for him years we have struggled with the issue of public versus private operation of government services. This is as true in the Department of Defense as it is in other areas of our government. As a member of the House Armed Services Committee, I take special interest in this topic.

I would like to focus my remarks on the use of the management tool outlined in the Office of Management and Budget Circular A-76. There are some good aspects to the A-76 process. We all want the best products and services at the best cost. The goals of the A-76 process are to bring this about, and sometimes it does.

But today I would like to call your attention to one particular drawback of the A-76 process. To me, the A-76 process very unduly removes the judgment and expertise of those most close to the question, the local activity. Decisions are made by dictates from Washington, not by the local prevailing wisdom. I believe that such control from Washington about what to study for outsourcing, while well intentioned, is not the best way to go about managing the federal work force.

Let me give you a case in point. In March of 1998, the Crane Naval Service Warfare Center located an hour southwest of here, began a process to review and examine its core competencies, and the demographics of its work force. Seizing this opportunity and seeing the merit of Crane's approach, the Navy designated Crane as a pilot activity to pursue Business and Process Reengineering, a fancy phrase for managing its own work force.

Crane, by watching the transient work force such as upcoming retirement, et cetera, outsourcing strategically in view of Crane's mission, and working in partnership with the local AFGE,

reduced costs by an average of 27 percent. The success of this pilot project laid the foundation for what is now known as the Navy Strategic Sourcing Program. This program is predicated on a broader, more holistic approach to achieve savings and optimize mission. It relies upon the judgment of those closest to the problem, not just the folks in Washington, D.C.

Let me conclude. 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 used 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.

I believe that the Navy's Strategic Sourcing Program is on the right track. I have seen it work at the Crane division of the Naval Sea Systems Command. I believe that it is to management programs like strategic sourcing, that the A-76 process must begin to complement rather than dictate. I urge you to consider this as you deliberate in this area.

Again, thank you very much for all of your service.

CHAIRMAN WALKER: Thank you Miss Kimball. We appreciate it. Do you have a quick one?

PANEL MEMBER HARNAGE: Yes, I have a question.

CHAIRMAN WALKER: He's got one quick one.

MISS KIMBALL: I'm not an expert, so.

PANEL MEMBER HARNAGE: I know, but, yeah, you've done all the work, they just took the credit for it.

(Laughter)

What I wanted to ask you about, this has been going on since 1998, and do you know whether or not there has been a reduction in the work force and whether or not there has been some outsourcing included in the process?

MISS KIMBALL: I'm not the expert on all of the activities at Crane. Our expert is in Washington, D.C., and his name is Jim Dahlberg (phonetics) and I can ask Jim to get that information to you.

CHAIRMAN WALKER: Thank you very much. Please convey our regards to Congressman Hostettler.

All right. If we can, let's now next move to the next panel which is going to focus on strategic sourcing and Business and Process Reengineering with regard to Crane Naval Surface Warfare Center as the case study.

CHAIRMAN WALKER: Welcome. Why don't each of you proceed. We will look forward to hearing what you have to say.

MR. EMBREE: Good morning. My name is Duane Embree. I'm the Executive Director of the Naval Surface Warfare Center Crane, located about an hour and a half south of here.

I want to thank you for allowing Crane the opportunity to present what we think is a strategic sourcing success story. We have a panel today consisting of myself; Mr. Bill Mason who's President of our local AFGE union; Mr. Bob Matthews who's been the Project Manager of our Business and Process Reengineering efforts. And Captain Select, Frank Aucremanne, who has been the executor of most of this effort, particularly as it relates to our public works operation, so he will have a very, very good case study for you I think.

I want to tell you a little bit about Crane. Why we decided to proactively pursue this Business and Process Reengineering, and share with you some high level indicators of what we have accomplished to date.

Mr. Mason is going to follow with a summary of our efforts from labor's perspective.

Bob Matthews will talk in some detail because I think that's important, about the rigor of the process which we have applied.

Commander Aucremanne will then provide details of one of our reengineering efforts as an example.

Crane began in the early 1940's with a mission to produce, store and transport Navy ordnance. Today, we have over 650,000 tons of ordnance storage capacity. That's about 20 percent of the DOD's conventional ordnance. We still serve that mission with our primary partner and tenant, the Crane Army Ammunition Activity. So we have both Navy and Army operations there.

Crane has evolved to a dynamic, fast-paced, high technology acquisition and fleet support organization serving an extremely broad customer base, including the Navy; the Marine Corps; the Air Force; Army, virtually every service, NASA, Special Operations Command as well as other military and civilian organizations in the area of electronics, electronic warfare, and of course ordnance.

Geographically, we are the second largest continental United States Navy installation with over 100 square miles. We are a national leader in protecting the environment--an extremely important thing these days is being a good neighbor to the surrounding communities.

We are the 12th largest single site employer in the State of Indiana, and southern Indiana's largest employer with around 3200 Navy civilians, and around 60 military. Our Army tenant has another 600 employees.

We have a highly professional workforce, with engineers, scientists, technicians and logisticians making up nearly 60 percent of our work force. One of the things that I think is absolutely essential--none of this could have been done without it--is our strong partnership with the AFGE. In fact, in 2000 we received John H. Sturdivant National Partnership Award for our partnership initiatives. One other critical point I would like to make here, is that we are a Navy Working Capital Fund operation.

We have an annual budget of over eight hundred million dollars each year. We are not mission funded. Less than 2 percent of our funding is directly appropriated for operations. The remainder of the funding comes from customers, Navy and DOD customers who seek us out to do work for them. Our physical system and our financial management processes are similar to the systems used in private industry.

Within our labor rates, which we established based on projected workload, we include not only salaries and benefits, but also all the overhead and all the costs of running our operation. Our labor rates include charges for all maintenance and administration functions, as well as all the investments that we make in people, facilities and equipment that are necessary to continually prepare ourselves to provide the services that we will need to provide in the future.

Obviously, we have a lot of pressure to stay efficient. We constantly monitor our overhead costs for opportunities to reduce those costs. And we have several metrics in place which we monitor on a monthly basis, to not only track what happened, but to look forward and to be able to make management decisions. Crane's customers are not mandated to use us, but they are free to shop for best value in terms of quality, responsiveness and cost.

Briefly, we have a collage here of the products that we support. As you can see, we cover the whole spectrum as far as products, ranging from ordnance to night vision devices. Most of our support is at the product level. We work very closely hand in hand with industry and government operations, as well as the fleet operators in making sure that they have the products they need and that they are reliable.

Our strategy has always been to provide the best value to our customers at the best price, while being able to make investments in people, equipment and facilities. For the last 10 years we

have been responding to those pressures to improve our efficiency and to increase the value of what we provide. As we went through the racks of the 1990's, we saw the need to not only stay efficient, but to focus on military value. We had to focus on investing to continue to be ready to provide those services in the future.

When the A-76 process was initiated, we were part of that and we were headed down that path. In 1998 we had about 576 overhead positions that announced for commercial competition. And we could easily hear the rumble of another 2,000 or so positions. We realized that we could study these functions as announced; we could probably achieve some savings.

The thing that concerned us most with running this large and diverse customer was figuring out how are we were going to maintain the level of integration that's required to efficiently and effectively operate our base. We felt that A-76 might sub-optimize at the functional level at the expense of the corporate operation. So, instead of simply setting back and letting that happen, we proposed to our parent command, Naval Sea Systems Command, to conduct a Business and Process Reengineering across the entire Crane organization, every single position, including those inherently governmental positions, and to conduct commercial competitions as appropriate, using the A-76 process.

This meant that we had to look across our entire organization to embrace change, a major initiative here. Reengineer our business and understand what businesses we needed to be in, and then reengineer those, and aggressively work to align our workforce to match the future DOD requirements. That is a critical piece of this. We have got to match the workforce.

In April of '98, March, April time frame, we were assigned as a pilot, with the goal of achieving the same costs savings as would be achieved through A-76. In partnership with our local

union, we began to establish goals, which you can see. We wanted to reduce our hourly rate, and by that we really characterized that as let's keep our rate growth below the rate of inflation. There are a number of things in our rate that we don't have a lot of control over, primary driver being personnel costs due to the cost of living increases and so forth. But what we do have some control over is addressed in our overhead costs. So our focus then was there.

And reduce the hours that -- the total hours that are spent in serving those customers. Again, if we don't increase the value, those customers can go elsewhere.

Mr. Mason is going to address that partnership agreement a little bit later, but I will tell you that without that, none of this would be possible, because you have to get the work force aligned behind you, with you, beside you. And I would also offer that in many cases that our employees and the union have pushed for change at a faster rate than some of our middle managers have.

Our approach. The next step was to develop a methodology for conducting this. Arthur Andersen assisted us in developing this methodology. We conducted a high level assessment of all the operations, and we have an illustration of that.

What you see are core equity areas of ordnance, electronics, and electronic warfare, our primary functions of acquisition and fleet support, and then you see the support services, if you will, the foundation or the steps below that (indicating), that it takes to run an operation like ours.

We have been doing Business and Process Reengineering on those areas highlighted in yellow. Those areas highlighted in red we had already contracted sometime ago and I don't know exactly how long, but it was long before the A-76 process had been put forth.

I'm going to close this with a couple of charts. I think metrics are very important and we have to establish goals and we have to stay focused on the outcome of what we are doing.

What you see on this chart (indicating), the gray shaded areas represent that portion of the Navy's budget which we were given to accomplish over about five years. And that's about 20 million dollars.

What you see in the bars, represent our -- Crane's objectives, what we felt we needed to target for ourselves in order to stay competitive; be able to make the investments that we needed to make so that 10 years from now we still stand as a viable and robust operation.

The blue line represents our accomplishments to date. You can see that in '98 and '00 we made considerable investments, and we'll be talking about some of that a little later.

But that we have achieved to date 18.2 million dollars net of continuing recurring savings.

We have taken an extremely conservative approach in defining these cost savings. There are several million dollars more which some organizations might throw in there. We did not because we felt as a pilot it was necessary to maintain absolute rigor in this thing so there would be no questions about the validity of what we had done.

Let's talk now about work year trends. The other piece of this, going back to our goals, our direct mission work years have gone up, and we expect them to continue to go up as far as we can see which is about two to three years out. And we have been able to reduce our overhead support work years. That enables us to maintain our rates, and where they need to be to be competitive, while continuing to make the investments in people and facilities necessary for us to be viable in the future.

Our overhead work years have decreased from about 959 to 772, and our corporate measures indicates that we can achieve around 700 by the end of FY03. I would note that in the early '90's and the late '80's we were well over 1,000 in indirect work years. And so this has been part of a continuing effort to drive down our costs.

One more thing which we will get into a little bit later but I want to mention, that through retraining, retirements, separation incentives and natural attrition, we are able to change the skills mix of our work force. We have not had to take any adverse personnel actions; there have been no involuntary separations or involuntary change in grades. And we have moved well over 100 people through our personnel transition office who are now in new jobs. Oftentimes better jobs than they had before. And so this has worked well. It has enabled us to hire new talent as well, and we are currently trying to hire about 100 scientists, engineers and technicians each year to try to sustain our work force.

I would offer that strategic sourcing has had a tremendous positive impact on preparing Crane for the future. I believe we have always had a good reputation, but that takes a lot of work. Our Business and Process Reengineering efforts have enabled us to take that extra step, forcing us to review everything that we do to ensure that it's technically relevant to the fleet. It has to be mission focused. We have been able to identify our core businesses and the key processes supporting those businesses.

We have established metrics and put in place a disciplined process to review those metrics and continually make improvements in those processes. We have established a corporate performance management system that enables us to do that.

And since we now understand our processes, and we understand the business that we're in, we are much better positioned to take

advantage of initiatives such as the Navy/Marine Corps Intranet and Enterprise Resource Planning, because we understand our processes. We understand what goes into and that goes out, and then now we know how to interface with these things.

One more thing that I think is an intangible. Our work force, both the managers and the employees, realized that while change is always scary, it's a life we have to live continually. We have tried to create an environment where we are not afraid to change, but we don't just change to change. We are focused on outcomes and we were focused on serving the fleet. With that I thank you, and I'll turn this over to Mr. Mason, unless there are questions.

CHAIRMAN WALKER: I would suggest that we go through the whole panel, and if we have questions at the end we will do that for time purposes. All right. Mr. Mason.

MR. MASON: Good morning. As Duane indicated, I'm President of AFGE Local 1415. We represent about two-thirds of the 3200 Navy employees at Crane; about three-fourths of the 600 Army employees. For a point of discussion this morning, what I will like to talk to you about is our Local's participation in the B&PR at Crane for process engineering.

A brief bit of background, we have had a labor/management partnership at Crane since about 1990, and part of that partnership, and there's many aspects to it, but part of it is the Union President is a fully involved member of the Board of Directors at Crane and the Business Development Board. Well, this is a good thing because you get a lot of insight by being on those boards. It's given me insight into the Navy and DOD issues; the budget crisis; the need for efficiency and effectiveness throughout government and throughout Crane.

And in 1995, you know, it seemed like the approach was a BRAC, and A-76 brought us to address those questions of

efficiency. Well, I witnessed the BRAC in '95 at Louisville and Indianapolis. I saw the devastating effects and demoralizing effects that it had on employees at the local installations.

In early 1997 we received a Commercial Activities list of about 84 positions to do an A-76 study on. Well, both Management and Union got trained on the A-76 process and circular and all that, and we started the A-76 process. I would like to address some of the mechanics of what we did.

The A-76 doesn't address the dynamic nature of our mission at Crane. The interdependency, interoperability of organizational to focus, and the flexibility required to meet our customers requirements. As an example of that, in our Material Management, we had an awful hard time to trying to figure out how you could do a fixed work statement to address the support and the interface with our ever-changing technical and engineering work requirements.

Another observation is that it's a very long process; secretive; with very little employee Union involvement which generates fear and demoralization to the employees in the process. It's a time span of not knowing what's going on when you're out; demoralizing effect on the employees. Wage definitions and comparatives as was mentioned earlier by Congressman Buyer, we noticed the same thing. The same there.

We haul explosives around the Center, the transportation does, and these folks are responsible for life and property in transporting and handling that explosive equipment. Well, their wage comparisons are compared to someone that might be delivering products to vending machines, potato chips or something. That's not a fair comparison, you know. They didn't take into account the responsibilities of those particular functions.

Then the Right of First Refusal in the A-76 process created a false sense of security in the employees. If a contractor wins a

study, the first thing that happens is you go through a RIF in the organization. Well, you know, many of those folks are placed in other positions due to their RIF rights, and the people that are culled out are not qualified for the studied positions, therefore they are not under the Right of First Refusal; and they don't have to be hired because they don't qualify.

The A-76 process just addresses cost. It doesn't affect the efficiency with respect to the whole organization.

In late '97, the Executive Director of Crane's Command came to me and we discussed the total redesign and restructuring of Crane to meet the Navy's goals of producing cost savings to be effective and efficient across the organization.

During those discussions we had decided that if we were going to do that, we ought to look at all business lines--everything we do at Crane. Just flat get out of that non-valued added services, non-valued added to our customers. And then understand all the process that's involved in the business line and how they interrelate and interact, and redesign those processes to make them as effective and efficient as possible.

We decided to call what we attempted to do Business and Process Reengineering. Well, you know, talk is good, but Unions like to have agreements on things, so we came up with basically three substantial agreements.

The first of which was kind of outlined in what I just mentioned, but it did some other things. It ensured full Union and employee participation in every aspect across the engineering project. It created an oversight approval team that had oversight approval over the whole process, every aspect of it. We called it the Executive Oversight Team, and that is made up of the Commanding Officer, the Executive Director, and the AFGE Union President.

That agreement also dedicated needed resources to accomplish the B&PR effort. And it set criteria to determine the A-76 portion of our business. It required review of all service contracting so like many organizations you don't know what you have; you need to look at all that and see if it's applicable. It required our full facility utilization. We figured we had a good chance to look at our facilities and do some savings in that area too.

It committed to RIF as a last resort, and it made commitments to employees basically, that the RIF was the last resort. And we committed to enhancing the in-house work skills in terms of training, retraining, reassignment to more applicable jobs. And the use of separation incentives to allow employees impacted by our process to leave if they wanted to, or accept the process.

We committed to negotiate agreements required to implement these. If something came up then there was a further agreement on the process. So, we knew we had to have employee buy-in to make something this large work across the organization.

So, our second agreement was called the People Movement Process. What this agreement did was set the precepts that applied to B&PR and also the A-76 portion of it. It defined a voluntary seniority process for management and bargaining unit employees affected by the B&PR. And it addressed the session planning throughout the organization, and required detailed redesign implementation plans so you can get a good tracking system of everything happening throughout the process. And that had to be approved by the Executive Oversight people.

Since we did not want to create a labor pool with respect to people sitting around, we made it a requirement that the employee's home Directorate, where we have Directorates all over our organization, are responsible for keeping these people gainfully employed until the redesign takes effect. Then we

established a Personnel Transition Office, which Duane alluded to earlier, we called it PTO for short, to facilitate the personnel placement, training, and information flow for the project.

Our third agreement called the People Movement Plan, a similar name for the focus here, really defined the details on how employees could be identified and moved throughout the organization to meet the requirements of the redesigned B&PR process. It defined the makeup of the Personnel Transition Office and their responsibilities, and made the staffing for that office, staffing classification for Union representatives, personnel, to be fully staffed, full time. What they do is track the employees vacancies, potential vacancies, potential work load coming in, special assignment opportunities for employees to keep them employed before the redesign takes effect, retirement information, other demographics for the work force, contracted work, and training information for employees.

They monitor the implementation plan with regard to the agreements; they track and support people in training; and they meet when the redesign is thought up or created; they meet with the impacted employees and explain to them the process that will be used, and how it affects them. And it's worked real well.

And then they also make monthly reports to the Executive Oversight Team and bring the problems forward if they run into process problems on something that needs to be addressed, corrected, or modified. Then they will bring those forward to be addressed by the Executive Oversight Team.

So far we have had 39 attrition; 84 employees SIP/VERA; 119 employees deployed to either new or expanded customer work requirements because our work is cyclical and ever changing. We had 15 employees go into the technical upward mobility program, which is focus at Crane, is technical engineering. We have not had to have a RIF nor do we think we will throughout the process.

B&PR is working. We are analyzing the whole organization, how the process is interrelated, and interacted, not just pockets within the organization. We are accomplishing the stated goals of DOD and Navy by reducing costs savings, including those claimed by the A-76 process.

We are becoming more efficient and effective in serving our customers. We are utilizing the A-76 process when warranted. We have eliminated secrecy to the employee, and the Union being involved. And we can start realizing savings from our redesign almost immediately, which is a plus. We have better utilized the employee without adverse effects to them. As a matter of fact, it's been a plus for many of the employees.

We have created a cultural change as Duane stated: it is a common sight now when new work comes in or something happens, for the employees to look for ways to work together and talk and not stovepipe. Really interrelate and try to find ways to do things better.

So our Local conclusion is that the A-76 process is a narrowly defined function-focused process with the intent of strictly reducing people to obtain savings. The B&PR process which is an organizational approach, which uses A-76 as one of the tools, is employee friendly, timely, open, obtains true efficiency, savings and is effective. In my opinion, the B&PR process should be considered.

I would like to thank you for your time and I am now going to turn it over to Mr. Bob Matthews who will talk about the methodology.

CHAIRMAN WALKER: That you very much. Mr. Matthews.

MR. MATTHEWS: I want up to thank each of you for coming out here to listen to our story. And I think you have already figured out that you have accomplished your objective of getting down to the weeds of the real world.

My position was as the Project Manager of this Business and Process Reengineering effort. Mr. Embree told you about the compelling business reasons that we had for Business and Process Reengineering; the goals of the project, and then Bill Mason here spoke to you about our partner agreements and about the project for management transition of people. And so what I will do now, will describe in a little more detail the B&PR and what the methodology is. It's really in three sections.

I'll describe the framework for the teams that we have that conducted the studies, and then how they engaged our executive managers in getting their thoughts for redesign approved and how they get funded for implementation. I will then also talk about our standard methodology guide, which is provided to each of our teams, that documents how they are to approach the reengineering; what the steps are, so there is a formal approach to each of them that they go through. And then I will go through one of our examples and share with you our overall results.

But this is our team structure. B&PR is a transformational initiative at Crane. And so since it is transformational, it requires a lot of investment, both in dollars and time and attention of senior managers.

Down here at the bottom (indicating) you see that we have consultant support. We hired Arthur Andersen as essentially our core consultant for reengineering. The Gartner Group was brought in specifically for their expertise in IT. That's just an example. We have had some other smaller contractors supporting us.

But overall, just to give you a data point, it's 3.6 million that Crane spent on consulting services in the three years that we have been involved in this process. But equally important is the investment that the corporation has been willing to make in terms

of providing our best people to serve on these teams, and to lead the teams and to manage the teams as they have done their work.

For example, the B&PR core team leaders included the Deputy Executive Director, the right-hand arm of Mr. Embree here. So you have the position, influential in moving the project along. Our Steering Team is essentially our Board of Directors. They review the teamwork that comes out of our recommendations for change. This is not an approval or disapproval group. That belongs to the Executive Oversight Team.

However, they do debate the issues that are being proposed; what are the investments; what are the changes you're proposing; what have your customers told you; what have you learned from industry; what your date of change; why do you believe that this thing you are proposing is a good thing?

The biggest thing that happens there is the advocacy later when we begin to implement changes and people begin to be impacted, and budgets begin to be spent, that these people be active and are supportive of what we are going. So, again, the key points are the investment that's being made in dollars and the time and attention of key managers. If someone tells you they are doing the engineering and not making investments, then they're not doing the engineering.

Next, I'll talk about our methodology, and you probably are all familiar with the approach to reengineering, it's fairly well documented in management textbooks, and there have been many articles and magazines, periodicals, of how companies have tried this; whether they have succeeded or failed.

But we needed a document that was specific to our program that we could provide to our team leaders because there were agreements that we had to follow; approvals they would have to go through, so we created that and documented it to quantify it into what we call our B&PR guidebook. You're probably familiar with

the key phases, which are the As-Is Phase; the Redesign To-Be; Implementation; and On-Going Monitoring.

Very briefly, in the As-Is Phase, the teams have come together; they have mapped the process; they have done data collection to understand where the costs in the process are and they pass the metrics. And this becomes the baseline for which later will be claims for cost savings or process improvement, quality time, et cetera.

In the To-Be phase, is what I consider to be the very most important in our methodology. Some of what the teams are starting to struggle with now are those opportunities for change. They are consulting with our customers; talking to them about the future, about what our customers needs to be; they're talking with industry and academia and other government activities about the issue that we have, and benchmarking ourselves against them.

Importantly, and I'll talk a bit more about this in a minute, is we do ask the teams to consider whether or not as an outcome of the reengineering effort, we ought to do a commercial competition using the A-76 process. And we have criteria that we give the team for that and we provide that recommendation to the Executive Oversight team.

Also importantly at the Implementation Planning Phase, our methodology require a hand-off from my core team that has done the study, to a Process Owner who's a senior level manager that's going to implement that change and then own it for the future.

And the methodology also requires that that Process Owner report back to our Executive Oversight team six months after implementation has occurred. It further requires that our Internal Command Evaluation Group provide an independent assessment of the process at one year after implementation limitation.

But again, I want to emphasize that this is the most important stage as far as I'm concerned--of course I don't have to implement these things, my core team figures out what these implementations should be. So we go out and benchmark and do site visits and a lot of research and partner with many activities.

And this (indicating) is just to illustrate a sampling, it's not complete, but this is the kind of people we talk to and learn from and develop in some cases continuing partnerships with as we improve for the future.

Now, I told you that we have a criteria for outsourcing, and there is where a team is considered. After they look at the business function, not if it's a commercial activity position or category, but as a business function and how it accomplishes the purpose of the function itself in supporting the mission.

The team looks at these criteria: Is the position inherently governmental?; is there something of a strategic importance here to the mission?; is there critical process knowledge that we must retain in-house? Being a Navy working capital fund and having our revenue being generated from the direct work performed, there is some risk to outsourcing direct work. And so they look at an economic indicator, an economic liability indicator to sustain their site.

Now, there is one other consideration that the team can come up with if they have the information that precludes an outsourcing study, and that's benchmarking data that shows the team that a competition would not produce further results.

None of our teams ever authored that last point. The argument has always been around the strategic importance and the critical process knowledge. The teams have come back with concerns in the context of the risk to the mission at Crane; our acquisition and fleet support for the mission; whether or not we

have the talent and the people we need; and what's the right quantity of that talent. That's the subject of debate.

Really we learned from benchmarking industry that we ought to be cautious about 100 percent outsourcing anything. This slide (indicating) just shows you that this is a total organizational assessment, 3200 positions at Crane. Many of our employees have been studied numerous times, being evaluated by many of the tools that we have, whether it's the B&PR methodology or direct conversion that we have done--because we are an MCI pilot, or whether it's A-76, or whether it's privatization.

This chart (indicating) simply shows the name of the initiative, the positions there were involved, and which total would be used. I'll conclude my last section with this example: Here's what our team did that was looking into material management. They created this process model and then captured the data which mapped our costs into 30 percent of it in the received material; 39 percent in store, and 31 percent in issue.

Now, the cost of conducting material management is 5.2 million dollars. The team, when they reengineered this process did not approach the answer in terms of process improvement, but rather from what they call lines of business to totally change the way we perform this material management piece at Crane. Their lines of business were: General operating supplies, cross dock, shipper and distribution.

Very briefly to each of those. General Operating Supplies: For the last 50 years at Crane we have relied upon our Supply Director to order and store and manage the general operating supplies, and even when we got credit cards out to the line directors so that we could buy these supplies, we didn't cease performing this function. And you may wonder why, but the answer I think is that we just didn't have the process in place that

raised it to the visibility that it got the attention that said we don't need to do this anymore.

Well, what we did was in conjunction with our financial management B&PR, we reengineered our credit card program, and we did this last year. We formed financial core teams and we reduced the number of credit card holders, and we provided training in credit card use in processing transactions, and we eliminated this piece, general operating supplies.

So, B&PR was the agent for change that brought this to our visibility and enabled us to design a process to accomplish that savings. And likewise, the Cross Dock. What we used to do was allow carriers like FedEx or any of them to come out to our base and drop ship, drop their shipment in just one location and then we used our own employees to sort the material and to perform the distribution. We are going to stop that. And instead, those carriers are going to directly deliver to about 150 or maybe 200 operating buildings, so we're out of that business.

Shipper Function: The team recommended it for A-76 that was announced to Congress this year, and that study is underway.

Distribution: We streamlined the operation and provided cross training in multitasking of people. In the end we have extracted two million dollars out of that process. This is just an illustration to compare the results that you can achieve through this B&PR methodology.

In material management we impacted how we bought material; how we moved it around the base; where it was stored, and this led to our ability to achieve savings in other areas like in transportation, or to eliminate some numbers of people involved in acquisition or middle management.

Then outside of the labor reduction we were also able to accomplish other savings by getting rid of some obsolete materials that we stored, and to demolish a small warehouse facility.

So, the last slide, just where are we overall at Crane This illustrates the major initiative that we have now implemented in the three plus years that we have been doing this. Material; financial; infrastructure. IT develop and deploy, now, that's separate from the MMPI piece of this reengineering which was a direct conversion. We don't know the cost savings there yet, so it's not accountable here.

Direct support is how we perform environmental testing and test equipment management for the project engineering assignment that we have.

And the transportation Commercial Activities study that we completed. Overall, this has resulted in 265 positions and about 27 percent average savings. This has enabled Crane to accomplish the corporate measures that Duane spoke of, and that was to reduce our mission support personnel, while at the same time hiring scientists, engineers, and technicians to perform the acquisition and support mission that we have; and to reduce the indirect from about nine hundred fifty, headed toward seven hundred; and to accomplish that 18.2 million dollars in savings that we have had so far. Just as an aside, about 80 percent of that is labor, and Bill told you what we have done in terms of managing the personnel transition.

In addition to these cost savings, I do want to point out as I conclude, that there have been numerous process efficiencies that have occurred in terms of faster delivery and better quality of the service we provide.

We have an understanding of our processes now which enables us to move forward to the performance management system; we have got metrics in place for all of these processes. It also prepares us to engage in broader Navy missions like the enterprise resource planning.

That concludes my remarks, and next up will be Commander Frank Aucremanne who will speak to you specifically about a mission in his organization for which he has responsibility as the process owner for infrastructure management.

CAPTAIN AUCREMANNE: Good morning. I'm Commander Frank Aucremanne, and I'm the Director of Public Works at Naval Surface Warfare Center, Crane. I would like to thank you for the opportunity to share with you my experiences for the last two years with strategic sourcing at Crane.

My testimony today is broken down into three parts: First part is called the magnitude of challenge. It's really all of the challenges that I will discuss. I'm going to talk about tools. The various tools that Crane used to address these challenges. Then I'm going to finish with the results of my two-year journey at Crane.

I checked on board at Crane in June, 1999, two years ago. Being a public works officer in the Navy, I knew Crane was big, but I didn't know how big. As Duane said, it's the second largest Navy base in the continental United States. As a point of reference, it's 50 percent bigger than Washington, D.C., geographically. And yes, we don't have as many roads, streets, people, buildings or problems, where in fact we're a small city. So roughly 100 square miles; 2600 buildings and structures; over 400 miles of roads; 11 million square feet under roof.

Because of our isolation, an hour southwest of Bloomington, we produce our own water; we treat our own sewage; and a little known fact, we operate DOD's largest railroad. We do 22,000 railroad operations per year; six days a week; two shifts a day.

Managing this is a monumental effort. It's monumental for several reasons. Our infrastructure is aging just like every other activity in the DOD, and we have increasing energy costs just like everybody else.

But because both of the Army, our major tenant, and the Navy, ourselves the host, are Working Capital Funds, we are constantly, constantly scrutinizing every penny I spend, every penny I charge. That was the first challenge.

The second challenge, when I checked on board I found out that 75 percent of my organization had been announced for a commercial activity study two years prior to my arrival. Seventy-five percent.

Now, I would like you to look at this chart real quick. I'm going to make a quick point. Twenty-five percent of the organization was not announced. In no particular business line was the entire business line announced. So I think the approach there needs to be looked at. I submit that as a recommendation that a thought process for identifying those things that need to be competed, be evaluated.

And in addition to the A-76, the ball was rolling when utilities privatization, which is addressed at a left column area there, utilities. And Crane had embarked on this thing called Business and Process Reengineering (B&PR) that would touch every single person in my organization, not just the 75 percent.

The third challenge: Knowledge management. One third of my work force is retirement eligible in the next three years. So, what do we do? Well, we developed a strategy, a strategic sourcing strategy. We broke that up into four elements. The first element is we looked at hazardous material and environmental management, and we used a couple tools called Business Case Analysis, and Position Management Plan, and Business Decisions and Outsource. We'll take a look at that business line.

The second area, utilities privatization, we really didn't have an option. We were directed under 249 to do that, so we marched on.

The third area, transportation. We were too far down the road. As Duane said, in 1998 we had 576 positions at Crane announced for CA. And we received approval under a pilot program to study those under B&PR. We requested approval to not do a CA for transportation, and it was denied. So we again said we're too far down the road, so we went all the way to the acquisition.

The last part of the puzzle is the maintenance and modernization. I think Mr. Matthews referred to that as infrastructure management. These four processes ran in parallel as we looked at my entire directors supporting -- providing public work services and products to the Army and Navy at Crane.

So, let's look at the results. First, environmental. Tell you what we found when we looked at environmental. We found a very effective organization. Very effective. Totally compliant; award winning, 17 State, Navy and DOD awards in three years. Efficient? Not a bit. They were disjointed across the command; they were clamoring to fill vacancies and add people to deal with that expedient curve in environmental regulations.

But we knew something wasn't right, and the first thing we did was a Business Case Analysis on the in-house hands-on functions of pest control and hazardous waste, and we outsourced those industries because that was the right thing to do.

In fact, the second thing we did was a thing we called position management planning. The organization we had in place was structured in 1990 and had not changed with regulations that had piled upon it. We grouped environmental regulations by functional category and then by risk; what we did was keep the high-risk program management responsibilities in-house, and we outsourced the balance, hands-on execution. Then we combined several of these disjointed functions into one office; eliminated redundancies and overhead, and we were able to then manage all of our environmental programs with the number of bodies that we had

before; eliminate the vacant positions; eliminate the FTE, and today that office is more functional, more efficient and more effective than ever before, without one FTE reduction.

The third thing we did, is a HAZMAT business and process reengineering. Mr. Matthews talked about that process. There's not a lot of opportunity for savings here. This is one of those things where you really have to measure efficiency and effectiveness and not FTE. The hazardous material process touches hundreds, hundreds of people on base. If you touch a can of paint, you touch hazardous material. I think members of industry here would understand that.

PANEL MEMBER FILTEAU: All too well.

(Laughter)

CAPTAIN AUCREMANNE: If you have a scientist or Ph.D., they were having to deal with the paperwork and the accounting. We were taking him or her away from what they do best and that is research, development and test evaluation.

What we decided to do was go to a MRO prime vendor--outsource all that stuff. Let those technicians, let those engineers, and let those scientists do what they do best. We haven't done that yet; we're in the process. We're trying to figure out the proper acquisition, but we think that's the way to go. In fact, that was the recommendation of the B&PR. Before we do that, we are already, based on our metrics, 60 percent outsourced in this function.

Next slide. Utilities privatization. If you remember the earlier slide, 96 percent of my utilities group had been announced for CA, and obviously that was overcome by privatization. Privatization mandated that we look at water production, waste water or sewage treatment, high voltage distribution, and natural gas. Now, you can look up here on the slide, my natural gas is already privatized.

So, at Crane, the Navy, NAVAC was going to come out and they said, okay, we're going to do your water, waste water and high voltage. And I looked at that, and I said, you know, that is some optimization, and I'll tell you why. I have a group of guys who operate and maintain boilers. That's a utility. I've got 82 central boiler plants covering a hundred square miles. We work seven days a week, 24 hours a day, 365 days a year. I have overhead associated with all those functions. I have somebody answering the phone; somebody keeping records; I have an engineer; I have a designer; I have an inspector. You understand the picture.

What we did, using the B&PR approach, we found everybody that touched the utilities, and we put them in a box. We stripped off the excess overhead of redundant functions and said, okay, this box is now utilities up to the five-foot line of the building. And I told NAVAC, I said, privatize that. Go through the process. Go through the process of the privatization evaluation.

The reason is, if I kept boilers in-house and didn't look at it, I was sub-optimizing. So you have to look at these decisions and these approaches strategically, and from a business perspective. What is the right answer to the taxpayer? What's the right answer for the base?

Now, let me talk about privatization real quick because I have some concerns, and maybe this isn't the proper forum, but I think you need to hear them as you evaluate competitive outsourcing.

The pros of privatization are first, industry brings tremendous technology and capital to bear. And they can provide a breakthrough on water production, sewage treatment, boiler operation and maintenance. Tremendous.

Right now I'm almost at the point where I can't lower my costs because I'm at a fixed point. Whether I produce a gallon of

water or a million gallons of water it costs me a lot because I have to buy it; okay?

Also, industry can sell excess capacity. Now, they can't sell excess water capacity because that decision has been made, but they can sell excess sewage treatment capacity; excess steam capacity. Maybe at Crane that doesn't apply because we don't have a city around us, but other places it does.

I'll tell you what the key thing is though, they assume re-capitalization responsibility for the infrastructure. I have got 150 miles of water lines and sewer lines; 82 boilers; 107 miles of high voltage overhead distribution lines. Every time I make a nonrecurring specific investment in those, that competes directly against my investments. Through the monthly bill process, industry can re-capitalize that and finance it for me. Those are the good things.

Here are the bad things: Risk. We have a daily payroll of \$800,000 at Crane. A five hour power outage caused by a storm, causes us a half million bucks. Pure and simple.

Today, if I have a power outage against the base, you're talking about 100 square miles, 100 miles of overhead line, my response time is 30 minutes from in-house forces. Day or night, seven days a week. No, they don't live on base, but they live right outside the gate and these guys understand what it means to respond.

I don't know if industry can do that. And the reason is, they're going to go take care of the hospital first, and they're going to take care of the schools and the old folks home, then they will come and see Crane; okay? That's number one.

Number two, economic model. I'm not sure I understand it yet how the economic model is going to evaluate the right answer. It's my understanding, I've asked this question three times and have gotten the same answer, that the economic model identifies

and calculates a should cost. Maybe this is what you should be paying each year to operate and maintain and re-capitalize your infrastructure.

Industry proposes their proposal which includes all those same factors. And if industry's proposal is below the economic decision, it is in the best interest of government to outsource that. Let me give you an example.

If I spend 10 million dollars a year now in the operation, maintenance and repair and procurement of the commodity, it should cost us twenty million; industry's proposal is five million, that's privatized. Now think about that. That means I got to pony up the extra five million bucks a year. And oh, by the way, my 58 employees left out the gate.

So, I think maybe that is something that should be taken under consideration. Is the evaluation process to privatize realistic and proper? I don't know the answer to that.

Transportation. As I said before, we were too far down the road to do a B&PR. We wanted to do a B&PR on transportation. I'll tell you why. I don't run a Jiffy Lube. I don't run Thrifty Rental Car. I support the movement of Crane Army Ammunition, the production, test and evaluation. We literally move and drive hundreds of thousands of miles a year. I support their open burning and open detonation ranges, for my employees work side by side with them. I also support the mobilization. Crane Army is a tier one activity; out the gate upon immediate notification; shipping lanes. We are an integral part of the process, not just a service provider.

But anyhow, we were too far down the road. So what do we do? As you can see on the slide there (indicating), we were announced under a couple single functions; we broke them into a multiple. We wanted all the liability in one box, and we gutted our way through it.

It was rigorous; it was painful. And I agree with everything that Mr. Mason said. We had terrible problems with the wage determination process, particularly on the ordinance drivers. Unbelievable. Just give you some quick math. The difference between the government wage and DOL was five dollars an hour. So for each -- if our MEO was the same, you're talking about a \$10,000 difference per person per year for drivers, and I run 20 drivers per day hauling ordinances. You do the math; okay?

We gutted our way through it. It was hard, painful and rigorous. I must say though, Mr. O'Keefe, is that same rigor, that same structure, that 12 percent does apply a bit of fairness. You follow the process; you obey the rules; you do a best value selection from industry, and you do have a cost evaluation; you do have a technical evaluation process to make sure that things are properly costed, and then you do a cost comparison at the end; okay?

As hard as it was, and I wrestled with the 12 percent, and I wrestled with the wage determination, and I wrestled with QA, and all this stuff, I have to say at the end the process was fair; okay? My personal opinion. Those are the pros.

The cons. It is stressful. You go down there every month and you meet your employees and he says, "What's going on?" And you say, "I can't tell you. It's secret. It's an acquisition. I'll tell you when I can be awarded with the deal, okay?"

During the assembling of the Performance Work Statement, in-house conference; this secrecy; these guys locked in a room that precluded them from innovative thinking, from that break-through thinking. They couldn't engage everybody because then the potential for the bid getting out on the street. You know, you had to be careful. I think that secrecy and that rigidity of the process precluded the realization of the opportunities for break through thinking.

The other thing I saw, is I had 112 positions identified in transportation, and I told you how we are inter-linked to the Army, Navy, everybody. When we went to talk to other people about, well, if you changed the way you do business and then I can lower my bid and you can save two and I can save three; you got the evil eye and they said, "Don't take my savings under your study, because when I get studied I need to have those bodies to save myself."

You get locked into the box when you identify positions, because you don't look for opportunities outside the box because you saw on that one slide, 75 percent of my positions were announced. You're going to see in B&PR where that one comes -- that next slide.

Okay. That's not to say there isn't a place for A-76. As you can see, here's a list of functions that are outsourced at Crane, public works functions. They're several, they're definable and they were really not interrelated with the rest of our business. Anybody who has these in-house, really has a good candidate to compete. But I'm here to tell you, I didn't use A-76 on any of these.

PANEL MEMBER FILTEAU: You just did a regular contract?

CAPTAIN AUCREMANNE: We did, we made a business decision to get out of the business because of the Working Capital Fund, a desire keep our rate growth, less inflation and said, "Gee, why are we doing janitorial? We ought to outsource that," and then you compete it, but you don't compete it against the government. You compete it across the industry, and then you pick a little better for best value process.

Next slide, please. All right. That brings me to infrastructure management, maintenance and modernization and B&PR. Maintenance and modernization covers the full spectrum of public works services, all the way from the inspection to the estimating,

to the ordering of the work, and executing repairs and preparing long-range plans.

Now, you would probably think that that function is definable in several ways, and I disagree. I believe B&PR, the process laid out by Mr. Matthews here, was in fact the right process, and here's why: The A-76 process is so locked into quantum; so locked into quantum. When you go through that process all the contracting officer wants to see is where is the quantum for the contractor to bid on.

B&PR looks at quantum because it has to. But it also looks at process, not just what you do, but how you do it. I talked about this box on A-76, 112 positions in transportation.

Let me tell you what happened in maintenance and modernization. We thought we had 170 people in the process. When we got done, we found there were 250 plus people, both internal public works and external public works. That's the process. We redefined that boundary to optimize opportunity.

In addition to capturing the quantum, we mapped the process. We mapped 190 different processes in public works. What they gave us, what that quantum in process mapping gave us, was the baseline to go compare ourselves to industry and then benchmarking and best practices. And we did that.

What did we find out? We weren't very good; we weren't competitive. In fact, we were archaic, in both our structure, our process and our technology. And we changed that. We changed what we did and we changed how we did it. Because we completely reorganized from a stovepipe organization to a core choice sum based customer line integrated product team concept.

Now, Mr. Matthews mentioned this, and we learned this, when we went out benchmarking, one of the places we went was the Toyota plant, and the other was Eli Lilly here in Indianapolis among others. The one thing they said, and we heard this again and

again and again, is keep what is critical to you in-house; outsource the rest. Okay.

For Toyota their guys maintain their production line in-house. The maintenance of their admin building, outsource. Critical, non-critical. Eli Lilly, same way.

One of the things they talked about and some things we read about is explicit versus tacit knowledge. I look at Johnson Controls over here, I had HVAC contracted because I can't maintain that technology level in my workers. Industry brings explicit knowledge, the knowledge to fix a piece, a part, a system that they design; they build; they operate, they maintain daily. But what they don't bring is knowledge of the customer and knowledge of the processes--when you're interrelated in your customers business and his planning and his execution.

The other thing, remember I talked about this third challenge, the one third of the work force? We proposed and got approval and subsequently implemented our apprenticeship program at Crane; the Department of Labor recognized it; had the ceremony last week; small, 16 people; supposed to graduate twelve in four years, but what that's going to do is continue to maintain my core capability and knowledge of my customers and my systems. These are all hands-on people.

Next slide. Gentlemen, we're running two slides and finish them. I'm going to try and wrap this up. I appreciate your time. When you drill down into what we did, I had fifty-seven hands-on wrench-turners in public works. Eleven million square feet under roof; got fifty-seven hands-on guys; doesn't include utility guys, this is maintenance and modernization; okay?

Most of my savings came from middle management, eliminating stovepipes and double checks and triple checks. Now, one of the other advantages of B&PR has been mentioned, you have to take a look at your facility, and that's certainly part of your process,

we found that our density at Crane, bodies per building, square foot per person, was low. We were in a very aggressive consolidation program which resulted in the demo from last year to this year of 200,000 square foot; projecting a hundred eighty. I don't have to maintain it. I don't need to keep people to maintain it. I don't have to pay the utility bill and I don't have to pay the backlog.

The third thing is the process recommends those things for competitive sourcing. The one thing our process recommended was actually our boilers operation and maintenance repair, should go through the A-76 competitive process. However, that was overcome by privatization.

Last slide. In summary, we reduced our in-house staff 376 to 300 FTE, with potentially 56 more, depending on the outcome of privatization. Our business is aligned with our customers business. Now, I'm sure Mr. O'Keefe, Mr. Soloway, you guys know that most public works departments achieve a 30 percent plus saving. I have done the research, and those in fact are the numbers. So what you have to ask is, only 20 percent, you know, where is the thirty.

Well, you have to look at the baseline. In 1980, we had almost 900 people in public works. We've been through three CA's; going into the '90's we were hovering right around 500, and we kept ratcheting down; ratcheting down, ratcheting down. We got to the point where everybody said no more. The command said we'll go through B&PR, even if it disapproves your efficiency, and we found the 20 percent.

By using the entire spectrum of tools available to us, from a strategic sourcing toolbox, I feel we have made greater and far more reaching changes in our business than we would have ever been able under the restrictive A-76 approach.

But we can't rest on our laurels. In fact, I've got my annual review coming up, it's underway right now, and this month we're doing a plan to check out with all of the people that redesign public works and all the people that run it and say, did we do what we said we were going to do. Let's update our benchmarks; let's continue to improve. Because if we don't, we'll be obsolete before we know it. Rate of change is about 18 months.

That's concludes my comments. I'll take any questions that you might have.

CHAIRMAN WALKER: What I'm going to suggest is, is that those of you that need to take a break or whatever, just feel free to do it when you want to do it, and let's just kind of keep on moving, and let's go straight into Q & A if we can. I can assure you I'm going to take one.

(Laughter)

Does anybody want to ask questions? Stan.

PANEL MEMBER SOLOWAY: I've got a couple questions, and I know some of these may involve lengthy answers. You may want to submit written comments given that we're running a little behind schedule?

It's certainly a pleasure to see you again. It was a pleasure to visit you with Bobby a couple years ago. The progress you've made since we were there, I think it was in '99, is really remarkable.

I have a couple questions. First of all, as a working capital fund activity, it seems to me you are in a very different position than most typical government activities, in the sense that your cost structure is somewhat different and your ability perhaps to account for your costs or indeed account for your costs are different. Also as you said, you do have competitors.

How much competition do you actually really face for your services? Some of what Crane does is to serve as a depot for

materials or products that are no longer in production. Of course, there's no marketplace, but I'm interested in exploring that competitive issue that drove your people, as a force. That, combined with your working capital fund status, clearly is different than a typical military base or a government activity across the board.

I don't know if you want to give a brief sort of answer to that; or whether you want to put that in writing.

MR. EMBREE: I can give you a thumbnail sketch. It's competitive in the sense that there are other working capital fund operations that have the same pressures we have.

Also, we all have some unique things that we do and then there's about a two, three percent overlap. And that's where that competition comes in a lot of times.

The competition, a lot of times, and I don't know quite how to express this, but it's the ability to just be able to do the work for these customers because they don't have the money, and if we can get them one more VA6B out there, then we feel that we ought to do that. So, we both work arm in arm with industry to solve problems.

And then at times we are asked by Navy and DOD to provide an alternative bid if they think that maybe industry's pencil is not quite sharp enough. From those dimensions we are really driven to do this.

MR. MATTHEWS: In the weapons systems area obviously you are dealing often with 50, 55 old systems, so to say we have diminished sources would be an understatement. That B&PR with what we call a comparable provider assessment, and in every one of our technical areas they were comparing ourselves against two or three other potential providers

PANEL MEMBER SOLOWAY: When you do your costing, are you essentially using a kind of activity based costing? Do you have

full cost accounting on things like pension, welfare, and all those other elements that appear in a traditional government activity?

MR. MATTHEWS: We do that, yes.

PANEL MEMBER SOLOWAY: The last thing that you described, and each of you laid out, I think we have heard a lot of testimony that is very similar in terms of strategic approach, you were one of the first case studies that we have actually had where people have had this line of business, but this over-arching strategic approach. Again, you have a little bit different status because of the nature of the work you do at Crane by some other government activities, and your working capital status, but it also sounds to me at the risk of getting myself in trouble here, like what you've done is a combination of the Air Force by picking a base with best value strategy.

I mean, you have taken sort of the whole operation and looked at it as a big unit and strategically defined and looked where you can add value to your customer. I was pretty impressed with it.

CHAIRMAN WALKER: Bob and then Frank.

PANEL MEMBER TOBIAS: I wasn't clear from the numbers you gave us when you said there were savings that you generated. Did that include when you were comparing prior costs with current costs, did the current cost include that work which had been outsourced?

MR. EMBREE: You may need some detailed answer on this, but we looked at each particular function, you saw the chart Mr. Matthews put up there. In many cases, there wasn't work outsourced, and so it was a straight cost savings. And in the cases where it was, it's an assumption that did include that. Is that accurate, Frank?

CAPTAIN AUCREMANNE: An example would be environmental where we did not reduce FTE but we outsourced. What we found was

beforehand we spent a lot on overtime. We were also outsourcing before. And we shipped it back to industry, and when you take a look at it and your savings is zero, and you look at your non-labor budget, there might be a little notch up on your non-labor budget, but you're doing it smarter by consolidating contracts, consolidating business lines, things like that. The environmental one was instead of hiring five people that were vacant, we kept it the way it was.

PANEL MEMBER TOBIAS: I understand all that, but I just want to know in my mind whether the bottom line that you were giving us included the roll up of the outsourced costs when you decided to outsource, so that there was a basis of comparing both.

I mean, it's easy to say, and there's been a lot of criticism of the A-76 process. Well, yes, we had a savings of 200 people or 153 people and what we really did was spend more money in outsourcing the work that was previously done before.

MR. EMBREE: I can answer that. Yes, it was. This brings up an interesting point, in that the discussions seem to always come back to full time equivalent, so we end up counting people. We have had these discussions too. If you want me to reduce people, I know how to do that. I can do that in two ways: I can either just outsource it all so my FTE goes down but my overall budget costs goes up; right? Okay. Or I can just quit doing the work and I can drive the people cost down.

But I believe the work needs to be done, and that is indicated and approved by the customer continuing to come back to us. But, yes, we have tried to include that and we look at our overall indirect cost, and we work really hard to maintain or drive that down.

PANEL MEMBER TOBIAS: I have one more question, and what you have described is, I think Mr. Matthews said, you are using tried and true textbook approaches to these issues, and the question and

the issue is not this knowledge isn't available, the issue is what is it in your environment that led you as leaders to apply this knowledge in a very, very sophisticated way. What happened? What happened to make this happen in your environment?

MR. EMBREE: Well, I'm going to give you a rather soft answer. There are some hard aspects to this, but as I told you earlier, 10 years ago we saw that we were going to have to improve our efficiency; drive the costs down -- but I can drive the costs to zero; I know how to do that, but what we really had to focus on was ensuring that we were providing the kind of value to the Navy and to the DOD. We had to.

I think it's the same kind of pressures that any business faces. Now, the challenge is to look up once in awhile and to look around and see what's really going on and where we're headed, as opposed to staying focused on the day-to-day work. Because we can work ourselves to death but not get any better. That's a very soft answer. Maybe some other members could give you a better answer.

CHAIRMAN WALKER: Let me follow up real quick, because basically we know you are talking about business in process. Frankly, that's something that ought to be done across the board. That has really nothing to do with outsourcing, it's something that arguably deals with the concept of most efficient organization. Presumably, that's what every governmental entity and every private sector entity and not for profit entity ought to be trying to seek to achieve; something that ought to be dealt with.

But in order to effectuate the kind of change you're talking about, really change management, cultural transformation, you have to have a burning platform. You have to be able to convince people that the status quo is unsustainable, and that the consequences of the status quo are so adverse, that if you don't

change, the "as is" approach will clearly result in a much worse consequence than going through the pain and the difficulty associated with such dramatic change.

What was the burning platform? And then I know Frank has had his hand up. Mark.

PANEL MEMBER FILTEAU: I have got a few.

MR. EMBREE: I will tell you one of the things was the base realignment closures that we went through. It was fear. We did not want to put our people through that again, and as you can see from the demographics of where we are in the state, we're it in southern Indiana from the technology standpoint. We just felt like we had to take this thing on.

And then we were afraid -- we had started earlier than A-76 to try and improve ourselves. We just felt like we had to do it. I mean, I don't know, I'm not giving a very succinct answer.

CHAIRMAN WALKER: Fear does motivate change. It's not always the way you want to do it but sometimes that happens.

MR. MATTHEWS: We are a naturally competitive organization anyway, but my background is, I was the BRAC Coordinator for Crane in 1995. And around us, the Louisville site was closed; privatized. Indianapolis here was closed and privatized. I participated as a staff person on those studies.

Then along came A-76 and we were going down that path and it wasn't getting us where we wanted to go. The problems that Bill talked about with the people, it was the complexity of it. Also limitations of it. We said if the next BRAC comes or the next other idea comes, we've got to be prepared for it. A-76 isn't going to get us there.

CHAIRMAN WALKER: Okay. Frank and then Mark and then Bobby.

PANEL MEMBER CAMM: I think we're all asking the same question, but asking it in different ways. Crane is known as the Poster Child in this kind of approach. You guys have been very

successful. So the question is why you and why Crane given that other people faced BRAC; other people faced A-76; other people have working capital fund operations? The question is, not so much to exalt Crane, although that's fun, but to ask how can we make this happen elsewhere

You mentioned in your remarks that the experience that you all had at Crane has helped convince the Navy to undertake a broader strategic sourcing approach. Have you all had any continuing contact with efforts to do this elsewhere in the Navy, and could you talk about what you

see happening elsewhere, and how you can transfer what you learned to other places in the Navy?

MR. EMBREE: Yeah, I think Bob has been involved in teaching some of those programs, so I will let Bob take the question.

MR. MATTHEWS: Well, as part of getting our parent commander to give us permission to do this pilot, we committed to help others do the same thing should we be successful. And so, yeah, in the Surface Warfare Center, other organizations now are participating in the business reengineering process. Some of them are very aggressive about it; others not so aggressive. Nobody has engineered a structured program relating to it, but it is going on.

PANEL MEMBER CAMM: Do you have any sense of what experience they have had with the BRAC list?

MR. MATTHEWS: Even though others may be considered on a BRAC list, there are some activities that don't feel the pressures; they have some other reason to believe that they are doing okay.

PANEL MEMBER CAMM: One last comment. One of the struggles we have on the panel is an argument we hear repeated is that the keys to success is competition. And people look at the historical experience of A-76 and they will say you can argue about how crude and how cumbersome the A-76 has been, but in the end it generates

competition. And it's only because of the competition, it's not because of outsourcing, because you can get savings with A-76, so people point to that and they say that's the reason we got to have A-76.

You guys account for something different. And so we are looking for the secret that unlocks that and that in itself.

CHAIRMAN WALKER: Mark.

PANEL MEMBER FILTEAU: Let me just make an observation. Do you guys realize that you sound more like corporate guys than you do like traditional government guys? You know, do you realize that? I mean, do you think of yourselves as that? Because I keep hearing you say the corporation.

MR. MATTHEWS: We don't think of ourselves as government employees, really.

MR. EMBREE: I'll tell you this, that there is a distinct culture, but the fact that we have to go out and worry about getting workloads in and not just going and convincing somebody to dump the money into it.

PANEL MEMBER FILTEAU: You have to hustle for the work; right?

MR. EMBREE: But based on value, people only come back with value. Plus, we run a large operation but we support 200 plus different customers. We don't have a big, I'll say, sugar daddy--

PANEL MEMBER FILTEAU: That's another factor right there.

MR. EMBREE: -- that funds us. So we do have to take rates into effect. We also have to be able to generate enough revenue to have something in our hands to reinvest so that we can continue to improve ourselves.

It's takes a lot of discussion; it's a culture and it takes a lot of hard work and communication to get that across to everybody. But once you do, I mean, it's just amazing what people can do.

PANEL MEMBER FILTEAU: Bill, you said something earlier that now you feel like you're a part of the Board of Directors; right? I mean, you sound like you are.

MR. MASON: Yes.

PANEL MEMBER FILTEAU: Would it be fair to characterize the way you all manage is sort of management in the sunshine? I mean, it doesn't sound like you have a lot of secrets from the workforce or from each other; is that true?

MR. MASON: No, we don't. That's the idea, you know. And that's, I think, a part of this B&PR that really helps. I think you need a good leadership between labor and management. I mean, we're on the same path. That's not to say we don't disagree with how we get there, but.

PANEL MEMBER FILTEAU: But you don't have a lot of the under the table stuff going on?

MR. MASON: No. It's pretty open.

PANEL MEMBER FILTEAU: Now, a couple of you used words like business development, so how engaged across the team here, and even deeper into the organization are you in hustling for the work, since you don't have one big sugar daddy?

MR. EMBREE: This is a sensitive point because it's not that we're out with briefcases knocking on doors.

PANEL MEMBER FILTEAU: Gee, I'm disappointed.

(Laughter)

MR. EMBREE: What we try to do is to take a look at where things are going, and then try to line ourselves up with where they are going.

You have to stay close to your customers, and you have to have a lot of conversations with them about where do we need to make the investments; what do we need to look like in five years from the people's standpoint and facilities standpoint; because if you don't, and I have seen many government organizations just kind

of say well, this is what we do, we have a right to do this, and you have an obligation to fund us to keep us doing this.

So, we really don't have that attitude, and I think that's an inappropriate attitude.

Now, the mission that we perform, and I don't want you to leave here thinking that we're just another contractor out there, because we're not. We do work for which oftentimes there is no clear funding; continued funding. They keep it in-house, in the family, if you will, in the Navy family because they have to string the funding along. So the mission that we perform is one that generally industry is not interested in doing.

PANEL MEMBER FILTEAU: Too much of it is a lot of high risk; too much liability.

MR. EMBREE: Yes, it is.

PANEL MEMBER FILTEAU: What I'm trying to get at is not to point you guys as another contractor, but I have a suspicion that the reason that you have been successful in getting a motivated sort of integrated sophisticated approach to B&PR as opposed to your usual Crane approach to B&PR which you have all seen a lot of, is that you don't have a sugar daddy, and as a result you have to engage your customer to keep that funding flowing as opposed to flowing to other places, because there are other ways they can get it done.

MR. EMBREE: Sure.

PANEL MEMBER FILTEAU: And I think that fundamentally affects the psychology of your group. I also think you've got a leadership team that acts like leaders and not like administrators. I think that makes a big difference.

Let me ask one last question about when you do outsource. It sounds like you're making the outsourcing decision on a strategic basis, not on the basis of FTE's or some other arbitrary manner, is that true?

MR. EMBREE: I believe so.

PANEL MEMBER FILTEAU: We talked a little bit earlier about this 12 percent overhead rate that some of the A-76 groups, some of the MEO's get stuck with. You guys are pretty self-contained; do you know what your overhead rating is? If you guys awarded a contract, okay, if you thought of yourself like that, what would your overhead rate be? Do you have any idea?

MR. EMBREE: Yeah.

We have two pieces. We have full color GNA, and then we have our production overhead rate, which is that rate which exists in the organizations. The overall rate and then we have the production overhead which is the indirect services within our revenue generating operations.

PANEL MEMBER FILTEAU: Okay. So the GNA is like your sort of top-level administrative expense, and then the overhead is the sort of indirect labor associated with performing the mission; correct?

MR. EMBREE: Okay. Correct.

PANEL MEMBER FILTEAU: And how do those compare to that 12 percent? Is it lower; higher? I mean, is the 12 percent out of the ballpark or what?

MR. EMBREE: I don't know that number.

CHAIRMAN WALKER: You may want to take a look at it and then provide it.

PANEL MEMBER FILTEAU: I think that ends up being a fairly critical thing for us to know, so, you know, where this 12 percent came from. I can tell you, your indirect rate based on your charts here appear to have fallen from 39 percent to 28 percent which is pretty good. I mean, you're getting there. So, you know, your heads are in the right place on that.

But I don't know how that would translate to a GNA rate for A-76. I think that's an important thing for us to get.

MR. EMBREE: Well, we can get you those numbers, you know, I just don't want to give you numbers today. I have a ballpark.

PANEL MEMBER FILTEAU: I wouldn't expect it. Thanks. It's a great presentation.

CHAIRMAN WALKER: Thank you. Bobby, you're next and then Colleen.

PANEL MEMBER HARNAGE: Before I ask my two or three questions, I thought it would be beneficial to the Panel if I gave you some information. Prior to this happening, the previous commanding officer and the previous executive director and the Local President, Mr. Mason, requested to come to AFGE Headquarters to make a presentation on this, and they made the presentation, although it was an unknown, but the fear factor was there. It did look like this was maybe an option which should be given an opportunity to prove itself. And it was a pilot project and they made it very clear, these three people, who later became known as the Executive Oversight Team, that without our approval it ended right there.

I gave them the approval to proceed because I wanted -- and I'm saying this because I want the Panel to understand that AFGE is not inflexible; we are looking for other ways. I've kept my eye on it over the years.

The other remarkable thing about this is, that we have had a change in the commanding officer; we have had a change in the executive director, but there hasn't been a change in the program, except to continue to improve.

The question of why isn't it working somewhere else; being utilized somewhere else? I never could get them to understand my reluctance to the strategic sourcing in the Navy and throughout DOD. No where else in DOD does this level of partnership exist. And there doesn't seem to be anything in DOD pushing it to happen anywhere else.

Now, there's some superficial ones, and the Air Force Material Command is working very hard to catch up to these guys, but that's the only place that I'm aware that they are even attempting to develop this type of partnership, which I think is a major part of why they're successful thus far.

The questions that I have, back in 1999 when faced with the human capital crisis, except for pay, do you have a human capital crisis now? If so, is it greater than, less than, or about the equivalent of the national capital crisis?

MR. EMBREE: We have an average age of about forty-four and a half years, which is less than most. We have been able to drop that some, through a fairly aggressive hiring program that we almost had to force into the organization because the organization was afraid to hire people.

We, like everybody else, are looking at over the next 10 years with about half of our people being eligible to retire. One of the good things that we have, is, as I said, from a technology standpoint, high tech jobs are about it in this part of southern Indiana where we live.

We have not seen major attrition of the new work force that we have hired. I lose a little sleep over this from time to time as they get closer to having five years in and they become very marketable, and they have a transportable retirement program. But a lot of the people specifically want to live in the rural environment and specifically want to work at this kind of place, and so we work very hard to get that match.

Also, we are working very hard to provide entry work. And I'll tell you that the concern we have is our ability to continue to provide good hands-on work to people, to develop them, and if we don't have that within the government operation in 10 years, those people that grew up with that will have retired, and we will have a whole bunch of people who don't know how to do it, because

they haven't done anything. So, from that standpoint we are concerned. We are trying to do everything we can.

Again, you have got to project out. I understand your situation, and then try to manage your way to correct it. But we have concerns. But we are doing our best to manage those.

PANEL MEMBER HARNAGE: I noticed in one of the slides there was a mention of it, but do you have some type of partnership arrangement with institutions of higher education?

MR. EMBREE: We have that at the scientist and engineer level. We have it at the accounting and business level. And we also have it at the technician level. Just for example, we are trying to hire our scientists and engineers with bachelor's degrees and then help them get a master's degree.

As we are trying to hire our technicians, we're trying to hire them with associates degrees and then help them to achieve bachelors, because we think they have to have that education. Education is the key here. If you have an educated work force, it's not as afraid of change as a work force that's not educated. At least that's our view.

PANEL MEMBER HARNAGE: And you provide some institutional assistance, tuition assistance?

MR. EMBREE: Yes.

(At this time, Panel Member James assumed the Chair.)

PANEL MEMBER HARNAGE: My last question. I think you answered the one I had previously, and that was the fear process, and there has been a reduction in outsourcing, but also fear. There has been no pink slips issued, which I think is again fairly remarkable.

And my last question, you mentioned in your testimony that you received the John H. Sturdivant 2000 Partnership Award. What impacts did that have, if any, when you returned home, on the employees?

MR. EMBREE: I know that -- and I need to let Bill speak on this, but from the managers' standpoint, we were just thrilled that someone recognized that we were actually working together.

And I think from a workforce standpoint, it really meant a lot to the Local. I'm going to let Bill answer that because I think that's your place.

MR. MASON: Well, it was very well received. Naturally everybody was very happy that we got it. It took a lot of effort, and they realized it took a lot of effort to get that. And basically what we got it for was for our work through this B&PR process, you know, agreements for the workforce and the savings we had.

MR. EMBREE: I will tell you though, there are always those who don't believe. There are those who don't believe on the management side, and there are those who don't believe on the labor side, and it is significant to receive national recognition, that hey, that must be real. And so in that respect, it helps us to move forward.

PANEL MEMBER HARNAGE: I think it's very unfortunate that neither you nor anybody else will ever have the opportunity to win that award again. It was a very positive thing to recognize the work you have done, and a pat on the back and the national recognition for a job well done. Thank you.

TEMPORARY CHAIRPERSON JAMES: I promised David that I would keep us going in his absence. Go ahead, Colleen.

PANEL MEMBER KELLEY: I appreciate all you being here this morning. Actually I had the opportunity last summer to sit on the Panel with Crane. And you and the IRS were another example of the management and the union working together. So it's good to hear what's happened in the past year because the success was reported last summer.

One of the things that we're wrestling with as a Panel, but I think there is pretty much agreement, that one of the issues we need to pay attention to is the impact on employees when just the question of sourcing is raised. Just the question of what that can do to the workforce?

One of the things that struck me was early on, Bill, you had mentioned something about everybody going off to A-76 training and then Bob, you had talked about consultants. And when you take the question of sourcing outside of the Defense Department, within every agency there's not any experience or expertise even within the management ranks of how to even ask the question or start the study of whether it's an MEO or whether it's A-76 or something else.

The idea of creating a level base of information so that the secrets are gone, and so everything is in the sunshine. It sounds to me, it allowed you to create at Crane an atmosphere where, while change is not something that's happening to employees, but that they are a part of it. And it sounds to me like it started because the base of knowledge and information on questions and answers about sourcing came from some training or a joint effort you engaged in to kind of get yourselves up to speed.

I was curious if you could just talk a little bit more about that, because I think many agencies are facing this as they try to react to the Administration Directive on the five percent.

MR. MASON: Well, back during the '90's, when was it? Well, '97 or so when we got the first -- of course we had been in a partnership for several years prior to that, so we were used to jointly discussing information and getting information and stuff, so it wasn't real new.

But after we got the training you are talking about, the Circular and the process of the A-76, I mean, it was joint. I mean, the AFGE informed the trades about that. Both management

and us went to that training, and then we had different studies that we identified people to be on those studies and they all, us and the management, went to the management training on the A-76 process on how it affected the work.

So it wasn't any secrecy involved. We were used to operating in that mode. Nothing really out of the ordinary for us.

PANEL MEMBER KELLEY: But it is for a lot of other people. Trying to capture that the employees are involved in the communication system.

MR. MASON: But even at that, even though we had, you know, our union representatives telling us stuff like that, it's not near as open. I mean you had very limited involvement. And even though they got trained and understood the program, still a very limited process. In the B&PR process everything and everybody was involved. Employees, bargaining, non-bargaining units, union as well, it was just very open. And being open relieves a lot of that tension and fear.

TEMPORARY CHAIRPERSON JAMES: Colleen, anything else?

PANEL MEMBER KELLEY: No.

TEMPORARY CHAIRPERSON JAMES: With that, on behalf of the Panel and on behalf of our Chair, we would like to thank you.

On behalf of the Panel, I have one final observation, and please, many of us asked the question in different ways, what is it other than the burning platform? My observation is that it was leadership on your part and those of others that I'm sure were participating in the process. It also appears to me that it was collaboration and partnership. That was very obvious in your comments, and your ability to work together both as labor and as management. It also seems to me that it's the relationship and the camaraderie that exists among those that have been involved in this process for a very long time.

Finally the plea that I would have is something that I'm very sensitive about these days, and that is, I would ask you to embrace the fact that you are government workers. You are in fact a model for the rest of the government in terms of how we would like to see us work. If asked how do you view yourselves as corporate citizens and corporate models? Do you view yourselves as government workers? I would ask you to embrace the fact that you are government workers, and are in fact a model for the rest of the government in terms of how it could work.

Thank you very much, and with that I would go ahead and call the next panel. Thank you very much.

TEMPORARY CHAIRPERSON JAMES: The next panel that's coming forward is the Privatization-in-Place, the Naval Air Warfare Center, Aircraft Division, and it's a case study out of Indianapolis.

Again, welcome to our next panel, and I suppose that among you, you have worked out how you might choose to go. I would ask that you start by introducing yourselves and then tell us what order you would like to present in.

MR. WHEELER: I think we are going left to right.

TEMPORARY CHAIRPERSON JAMES: Left to right; okay. Well, Jim, why don't we start with you.

MR. WHEELER: To our Chairman and members of the Panel and guests. We're delighted and really appreciate the opportunity to speak with you today about the privatization of the Naval Air Warfare Center in Indianapolis.

My name is Jim Wheeler. I'm a partner with Arthur Andersen. At the time I was involved with this particular transaction I was a Senior Fellow at the Hudson Institute where I had been many years working on national security issues, defense, industrial base issues, a variety of areas. And it was that background that Mayor Goldsmith, who also isn't with us right now, invited me to

work with the City very early in the process of helping them think through what the BRAC-95 might mean for NAWC Indy. I was brought into that process and stayed with that process throughout both the training and execution of the privatization.

With me, and in our joint presentation, is Mike Sargent. Mike is currently a Senior Manager with Arthur Andersen, but Mike has been involved with this privatization since its inception. He was a 15-year veteran of the Naval Air Warfare Center here in Indianapolis. During the '92-'95 time frame, he was the deputy to the CO at NAWC Indy, and was responsible for all of the BRAC interaction at that time.

Once the BRAC decision was announced and Indy was on the list, Mike left government service and went to work for Mayor Goldsmith, and in fact had the authority and responsibility for executing all the stuff that we are going to talk about that we ended up negotiating.

So, we decided to split this presentation and talk at a very high level on some highlights. It was a very complicated process. First time this had ever been done. So, we are going to touch on some highlights, and we welcome questions to take us down into whatever level of detail you want.

From a kind of a high level prospective, much as you heard about Crane, NAWC Indy was a working capital fund activity. It had virtually no budgeted authority. All of its money came from doing engineering work for the Naval Air System, Air Systems Command. So, it had an employee base that was deep in engineering and technical skills important to the Navy.

But something that was also important, you've got to go back into the 1995 timeframe to understand this, unlike most government activities at this time when you look around the Navy, NAWC Indy had a growing workload. It had significant backlog, and it had a very satisfied customer base in the Navy. So, it was a little bit

atypical. You didn't have a lot of excess capacity on site in this facility. That's an important issue.

At the time I first started looking at this, this was probably six months to a year, very early in the BRAC-95 planning rail, there was about 2800 people there. There was about 350 million dollars worth of direct work, and another 200 million dollars of managed procurement that was handled through the site.

But based on the results of the '93 round, and the Midwest location, and the types of activities that the Navy was focusing on, the perception was there was a very strong chance that NAWC Indy would be on a closure request. So that the risk of this was a very high potential loss to the Navy by losing the capabilities here. And I think that's one of the big issues, that when we were taking a look at the employee base, the engineers and scientists, the technicians were essentially telling us they weren't going to move.

At that point what we had was a very high risk to the Navy of a loss in capability. Yeah, NAWC Indy had some great facilities; great hardware, but the value was the people; not the facility. And it was a very good chance that the people wouldn't move.

So, during this early planning stage, one of the things that we did as a team was to look at NAWC Indy and work with the Navy. And essentially we took a variety of different proposals, usually a team led by Steve Goldsmith, to the Pentagon with various alternative ways to avoid closure.

Once it became clear to us that the BRAC train was on the tracks; alternatives weren't considered; couldn't be considered. The profits didn't allow alternatives to be considered, you were either going to be reviewed in the BRAC process or outside of that was not viable. Then you have a situation where we began to build the business case for the privatization alternative, because it

was fairly clear to us at that point that that closure train was in process.

Well, one of the very interesting things is we obviously made the case fairly well because the BRAC Commission agreed with our position, and instructed the Navy to consider privatization as the first option as opposed to the Navy's closing option, which was the Navy's proposal in the BRAC.

So, with that determination by the BRAC Commission, what we then had to do was move into a set of negotiations with the Navy where we started looking at essentially a business case or feasibility study that met or exceeded all of the objectives of base closure, as well as trying to meet the objectives that the City was trying to achieve, such as impact on community and impact on employees.

So, we set about a fairly intense, as you might imagine, set of negotiations between the City and the Navy over these set of issues. Ultimately, we came up with a feasibility assessment that essentially said that we have the potential for a commercially viable product here that met or exceeded all of the requirements of the base closure. We saved a little more money; we kept the government customers happy, and also it identified a number of criteria that we had to meet in order to make that happen.

So ultimately where we ended up, is that the U.S. government would support the privatization. This was the U.S. government representing the Navy, although we spent a lot of time dealing with personnel issues and conflicts of interest issues, all of the various issues that deal with it. The Navy was willing to support it if we could make it cost effective and responsive, and minimize the risk to mission--an important issue.

The City was interested in keeping a viable enterprise and high tech jobs in Indianapolis. This was very important. The employees were very interested in privatization if they could

continue to do the same kinds of high quality work. They just didn't want to have a good job, they wanted to do this kind work. It was very interesting and exciting work.

The contractors that we dealt with, this is early, this is before the competition occurred, would support the privatization if it made business sense. Does it make sense? Can I make money at it?

So, I think we ended up with an agreement that said if we can meet these criteria, then all the stakeholders would support the privatization effort. With that agreement, I will turn it over to Mike here, and he will tell you how we actually executed this very high level agreement.

MR. SARGENT: Good morning. Let me just say first it's always a pleasure to talk about this project. It's pretty much consumed my every waking hour for about five years, and without a doubt was the most exciting and interesting, also frustrating, but in the end the most satisfying thing that I have ever been involved with in my professional career and probably never will again.

The slide that you see in front of you now basically is a very high level view of what the concept that was agreed on between the Naval Air System Command, and the City of Indianapolis representatives, in this case Steve Goldsmith. And that it was basically going to be a very unique process driven by the City of Indianapolis, where the City of Indianapolis was actually going to do the competition and then hand over the winner of the competition to the Navy. The Navy then subsequently negotiates a contract for the workload to the Center.

That was very unique and really had never been done before, and it put the City in an interesting situation in that they had to protect the interest of all of the stakeholders in the process. As Jim mentioned, the stakeholders being the employees first and

foremost; the Navy, and then also the City of Indianapolis at large as the employer and where the facility resided.

Basically the Navy had the option in that process to walk away at that point if they didn't like the outcome of the competition, or if they couldn't come to an agreement contractually with the winner. So all through this process there were multiple opportunities for people to bail out, if you will, and the good news is that, that never happened. Instead, we found a way throughout to work out any issues, even those that were deemed to be impossible.

At the end of the process, all of the three parties involved, the parties in this case being the eventual winner of the competition, plus the City of Indianapolis and the Department of the Navy, all of the three principals had at least one contractual agreement with the other two. So, you really had a triangle here where you worked this thing together; where all of us were bound together at the beginning of the process.

I guess the last thing I would say on this slide is, first and foremost, as this entire process was driven initially, and throughout, it was really about the people, and it was about the employees that worked there. The point being that any of you who have experience in BRAC know that three to five to six to whatever year process where those people are waiting to see if they've got a job and if they have to move and all that, is without a doubt the most painful thing that I think any government employee ever goes through. We, in essence, said up front, whatever is going to happen, let's make it happen quickly. In this case it's not the old saying "speed kills." Lack of speed would have killed this deal for all the parties involved. Let's make something happen quickly to move forward.

This slide basically shows you what I just said, and that is, that we embarked on an unbelievable aggressive time line by any

standard that you want to measure. At the beginning of the process, the City sort of had an internal goal: We wanted to get this thing done in one year, which was about a quarter of the time that the Navy was going to take to start moving their first people had we went with the original plan.

In fact, in the end we actually completed the entire concept from solicitation on the streets, to standing up with the triumphant company in just under 54 weeks. So, if we hadn't issued the solicitation a couple days before Christmas we might have made it. But we, as you see, on a couple of the time lines there, we drafted the entire solicitation on the City's part in four weeks and held a five months competition with the private companies that were interested.

The Navy turned around, and another amazing thing on this chart, is the Navy negotiated the workload contract in three months, which originally we were told that nine months would probably be difficult. And yet true to everything else in the process, the Navy managed to find a way to get it done. In our overall time from the date that the facility was officially announced for closure, until we stood up the organization as Hughes, was 18 months.

One of the agreements that I mentioned where people were bound to each other, is the document that bound the City of Indianapolis to Hughes, and of course it says Raytheon on there now. Remind me to change that. All of this occurred prior to the acquisition and was called the Economic Development Agreement. Basically all that agreement did was bound them to all the terms of their winning proposal throughout, and that agreement was meant to protect all the parties in the agreement, which meant that the City had things here that basically protected the government's interests in terms of cutting rates by 15 percent and some other

things as well as having things that protected the employees and the citizens of Indianapolis at large.

The most complex part of the entire transaction without a doubt was the actual contract between the Navy and Hughes. That was a fascinating event because during the competition that was ran by the City, the Navy at that point still didn't have the authority to issue a contract in regards to a vehicle to take care of its transactions. So while we were actually competing, we were actually telling the people, we were working on how to do this, but we ran into a lot of process in parallel.

It did turn out to be, as I understand it, to be the largest public exception to SECA to date, and addressed basically the single largest concern from the customers side, and that was NAWC, who also was as Jim said, a working capital fund activity.

So in essence, every single customer of that facility had to be convinced that this was a good thing. Because if that customer said, I'm not sure about this privatization thing, I want to move my work to somewhere else, we would have ended up with a great company but no workload to execute.

So one of the largest single concerns of the customers was, how can I access this private company with the same flexibility that I could when I was going from government to government? And in essence the way I view the contract was set up, it allows for any government agency to come to the facility directly, without trying to rule out competition.

We did see, however, that uncertainty about the contract did lead a number of private sector companies to choose not to participate in the competition because there were just so many unknowns out there in their mind.

I have got a couple points here very quickly on benefits achieved, and there is a variety for each of the stakeholders. I

think there were a variety of benefits, and I'll hit just a couple of high ones.

In my opinion the biggest benefit to the government was the government maintained access to the skilled work force. We had over 2,000 high tech employees there, that almost certainly I think the government would have been lucky to have retained 10 percent of those people had they been asked to move across the United States. So just the retention on the customer side and the government side of those people was a fantastic achievement.

For the employees, as mentioned earlier, they basically maintained the opportunity to continue doing the challenging kind of work for DOD that they had done for years, and enjoyed doing; got to stay in Indianapolis and maintain their lifestyle and residence, and put them in a situation to minimize I think the trauma of what could have been a very traumatic base closure.

All of my colleagues at Raytheon talk about how they believe the project has benefited their company, but we basically saw it as a opportunity to create a very profitable work enterprise for whoever won the competition. And we thought it would add value to their existing corporation, whoever that turned out to be.

And for the City of Indianapolis's benefit I think it was very straightforward, and that, NAWC Indy was one of the largest high tech employers in the City of Indianapolis and also in central Indiana. And with the situation in Indiana currently having difficulty retaining, keeping those high tech workers, this clearly would have been a disaster for those folks to leave the state.

In the future, there will be some discussions from Raytheon about the future, but in five plus years later I think this is still an all around success story for everybody involved. And even though this was performed in a BRAC context, many of the things that we did, could have been done even if the base had

remained open. I think even more so today when there's a lot more flexibility to do some creative government/industry partnering than we found in the mid-90's when we started suggesting ways originally as alternatives to BRAC that we could maybe, you know, get around certain practices and help the government at the same time. There seems to be a lot more ability to be creative now than we found six years ago.

The last five slides, and I'll run through these very quickly, are sort of some lessons learned broken down into five different categories. I'll just hit some high points.

This particular slide talks about observations from the private side on facility. I'll just say that one of the things we have been warned about early on in this process was that in those cases where the government had tried to quote "privatize operations" that the government issued the contract in such a way that they not only said this is what I want; this is how I want you to do it, and we found that there was a lot of concern about, I'll say, government trying to run things the same way that the government ran it.

We got around this issue quite a bit by only having the workload contract with the government, and in essence the City making the agreement with the contractor about things that weren't germane and agreeable with the Navy up front that you know, we would like you to concentrate on trying to contract with them for the work. As far as the operation of the facility goes and so forth, we will protect your interests through our lease and other things, but at the same time let's try to not add that to the mix if we can.

On the operational side of the house, I mean, clearly there was a large adjustment in the workforce during the transition in a lot of ways. And I think that will come up later in discussions and probably questions as well.

An example of one of the things that seemed strange, I think sometimes to the private sector, is that the government intended to outsource large amounts of what some of the private sectors might consider core work. For example, NAWC always had a fairly large engineering subcontractor agreement where a lot of engineering work was subcontracted out, yet maintained operation of a lot of functions that most companies would outsource. So, I think Raytheon, as they came into the agreement, had to wrestle quite a bit with balancing some of those issues.

On the personnel side, I think the personnel transfer to the private sector overall seems to work very, very well. We have a large, large number of folks there today that had tens of years of experience prior to this in the federal government.

There clearly were some issues: cultural, procedural and some others, and others related to benefits which caused some consternation to employees. I think the impact of how satisfied people were varied greatly between what they did in the government and what they are doing today in that same company.

I will say that CSRS affordability with the pension was an issue that dogged us throughout this entire process, and is one that I know some of the folks on this panel wrestled with on this point. We tried a variety of things. In the end, I think we managed to hit a good balance between options for the folks, but I still think there's a lot of improvement in that area clearly.

On the customer side, as I said earlier, it was an industrial funded activity so every customer had to sign up for this individually, and 98 percent retention of the customer base in the early operation I think is a great indication of how well it worked.

I think the customer's single largest thing was a desire to continue to work with their local project team. Again, back to that issue of retaining the intellectual capital that the

government had grown over those years, let that project manager continue to work with that same team that he or she had been working with for a variety of time.

Lastly, my last slide is, I think, the ability to cut costs and reset overhead functions is largely driven by eliminating some overhead functions and reorganizing the workforce in a way, maybe in the way the private sector might run the facility as opposed to how the government had done it again. It would be a contract focused on delivery of what the government needs, and giving the contractor some free rein to reorganize.

While hitting the targets set by the City of Indianapolis for employment and so forth, we were able to reorganize and hit those goals especially in terms of cost. That's the end of my remarks.

MR. MUTEK: Members of the Panel, I'm Michael Mutek, and I appreciate the opportunity to talk to you. Both Donna Chastain, who will follow me, and myself, are employees of Raytheon Technical Services Company. Raytheon Technical Services Company is the successor to Hughes Technical Services Company, the company selected for this privatization. Donna, like Mike Sargent, who preceded me, were employees of the public doctrine prior to this privatization.

I'm Senior Vice President for Raytheon and I was involved in the pursuit of this opportunity to privatize this a few years ago. I want to share with you some of my observations. Today NAWC is known as the engineering and production support business unit for Raytheon Technical Services Company, and it's one of our 12 business units.

Raytheon Technical Services Company is a 2 billion dollar a year operation. We're located in all 50 states and seven countries. We're proud to say because of our polar service operations, we're in all seven continents.

The privatization-in-place at the Naval Air Warfare Center, Aircraft Division, Indianapolis, first appeared on our radar screen in December of 1995. As Jim and Mike have very succinctly covered, in June of '95 the Department of Defense announced that it would close BRAC --excuse me, would close NAWC pursuant to BRAC. And it had been in operation since World War II. By the way, the reason that Indianapolis was selected for NAWC, was that it was beyond the reach of any bombers in World War II. So it's important to history.

The Department of Defense examined what should be done. Mayor Goldsmith agreed with closure, but on his terms. He had a great deal of credibility, and he championed a procedure whereby the City would serve as the source selection authority and pick a company to conduct a privatization-in-place. The Department of Defense examined his proposal; agreed with it, and very importantly saw that it met the test of meeting the needs of all involved stakeholders.

Hughes Technical Services Company took over the operation in January, '97 after it had been selected through a competitive source selection.

I'm going to briefly describe why we bid this contract. When examining potential opportunities, any company examines whether the opportunity is real. In other words, it wants to know before it commits its valuable bid proposal assets and its personnel, whether the contract is likely to actually be awarded. And that's an issue on the A-76.

Next, the company wants to examine whether it should pursue this opportunity; as stated in the prior presentation, whether it makes good business sense. Mike covered that. We wondered if the privatization was real, and for good reason. Here a city would be conducting a source selection. This was a rare opportunity and a rare situation.

We examined Indianapolis's prior experiences in privatization, and we learned very quickly that it had a very successful record of using public private competition and privatization as well as business process reengineering to become a more efficient municipality. And we thought if anybody could do it, Indianapolis could.

Next, we asked why we would want this. The employees at the facility and the work performed at NAWC were key factors in the decision of Hughes Technical Services Company to bid this. Despite the decreasing workload, let's face it, you're looking at a potential closure consolidation because of a decreasing workload. We found the employees at the facility were very attractive.

In the case of NAWC, there was additional inquiry. Besides asking whether it was real and what we wanted, we asked what is a privatization-in-place, and what does it mean in a long-term strategy? Because the facility would be facing a decreasing workload, another line of inquiry was whether reengineering opportunities existed to reduce current operating costs, and whether we had the ability to bring in more work to keep the facility operating at a near full capacity. This was part of our due diligence inquiry.

Now I would like to summarize two key factors that I saw in the success of the privatization. The first factor has to be experience of the City of Indianapolis that was brought to bear in this whole process. Briefly, the solicitation quickly identified all of the stakeholders involved: the employees, and the retention of jobs; the local community interest; the Navy's desire for continuation of services, and the fact that the private sector was looking for a good business opportunity.

Mayor Goldsmith served as the champion. It's extremely important to recognize this because there's a very good GAO Report

that deals with the subject. It talks about successful privatization on the state and local government levels, and found that the involvement of a very visible, strong champion is necessary to have an effective privatization. Indianapolis had that. He sustained that commitment of the City throughout this process and championed it.

The second factor is that in some ways, the contractor approached this privatization more like a merger or acquisition than a bid in response to a contracting opportunity. Knowing that privatization-in-place does not address the issue of full facility utilization, the company conducted the type of review of asset utilization that is similar to the type of due diligence inquiry when you buy another company or merge.

This review included examination of data on expected federal government work and an assessment on the operation's ability to win new work. Also examined were reengineering possibilities to achieve operational efficiencies and the opportunities to transfer work into the NAWC.

Full utilization is facilitated if the contractor does possess work that can be brought into this facility, or when through business process reengineering improvements, we can achieve cost and performance efficiencies to allow the facility to win new contracts.

I would like to just close with a few words about excess capacity and privatization-in-place place. GAO has stated in one of its reports that privatization-in-place has not resulted in the optimal reduction in excess capacity in the joint public private sector defense infrastructure. That's an important point. This is because work remains at the original site as performed now by private sector, and this is in lieu of closing the facility and transferring the work to another underutilized facility.

At the same time, the GAO has correctly noted that privatization-in-place can reduce excess capacity and operating costs if the privatized facilities have the ability to consolidate work or to achieve efficiencies.

The reason I raise this is that increased attention to privatization-in-place may result because of recent announcements that BRAC will be coming up again. I believe the privatization-in-place of the NAWC here in Indianapolis provides lessons for other localities; but privatization-in-place is not a magic bullet, it is a complex, difficult process. With that, I would like to turn the presentation over to Donna Chastain.

MS. CHASTAIN: Thank you for the opportunity to address the Panel on the NAWC Indianapolis privatization-in-place. I have been working at the 21st and Arlington facility for over 21 years. I started working for NAWC in research, then moved to engineering and information technology, and finally ended upon on the NAWC Indianapolis BRAC team responsible for implementing the BRAC's decision.

On January 6th, 1997 I transitioned to Hughes in an information technology position. Today, I work for Raytheon in business development. I will briefly tell you about the privatization from the employee's perspective.

When Hughes was selected to privatize the facility in May of 1996, NAWC had approximately 2500 employees. Several management issues had to be addressed immediately and jointly. These included transitioning the workload from a government facility to a private company. For the workload that was transitioned, keeping those programs on track during the transition. We had to integrate commercial systems with government legacy information systems. We had to have training on new business processes, including government audits and security requirements, and we had to staff the organization. Ultimately, fewer than 10 employees

did not find opportunities through Hughes, through government priority placement, through the government closeout team, or through retirement.

Raytheon has brought to Indianapolis steadily increasing awards since January of '97 with projections to double those awards in 2002. After publication of the BRAC list in 1995, investments were rare at NAWC Indianapolis. Once selected as the privatization contractor, the company began investing in the facility, and it continues today. Routine maintenance at the facility occurs, as well as major upgrades to the cafeteria and office areas. Major training investments include a software engineering certification program brought on site by Purdue University for electrical and mechanical engineering, as well as Rose-Hulman Master's degree program for engineering management.

Business investments include new financial systems and upgrading information technology network, and a new data central computer. There are also investments in process improvements for us to achieve ISO 9000 certifications and SCI Level 3 certification. Investments contributed to our selection for the 1999 and 2000 Indiana State Quality Award, and for the Raytheon Environmental Health and Safety Excellence Award in 1999 and 2000.

Raytheon's customer base has grown and changed. Before privatization, NAWC was a technical center that served mostly U.S. Navy customers. Today, Raytheon performs less design and more repair work than before the privatization. And the customer mix is more diverse, with 60 percent U.S. Navy, and the remainder of customers from U.S. Department of Defense services, other countries, and from Raytheon itself.

With this change in workload and customer base, there's a business imperative to match the skills mix and staffing levels of the employees to the customer workload requirements. In June, 1998, Raytheon had to right size its organization to adjust for

workload changes. Since then, the work force has remained stable at approximately 1500 employees.

Communication is critical in a changing environment, in building a trusting relationship with employees. When NAWC was placed on the BRAC list, the leadership there drastically increased communications with employees through meetings, newsletters, and bulletin boards.

Raytheon has continued increasing employee communication with local and company-wide information provided through a variety of media. From the time our sister organization in Warminster was placed on the BRAC list in 1991, until January 1997, NAWC employees were uncertain of their future. But the privatization-in-place provided a compensation package comparable to that provided by the government, with the same salary and comparable benefits. Initially, for most of the 1970 former NAWC employees hired by Hughes, there was no change in job duties or responsibilities.

New processes were employed to transition the business from a government entity to a private company. Goals and objectives were set to enhance customer success and to create a work environment that encouraged learning and professional development, and to reward successful individual and team efforts.

A new performance development process that was implemented, that links individuals goals to the company's goals and objectives. Employees are rewarded based on their performance and accomplishment of those goals, through recognition, achievement awards, and salary increases.

A competitive job posting process was implemented to ensure the most qualified candidates are selected for positions. This posting process includes union positions.

Prior to the privatization, AFGE Local 1744 represented approximately 1400 employees, and had a membership of three

hundred. In 1997, the new three-year contract was negotiated by the AFGE National Vice President for Local 1744, which required a closed shop, and included only wage grade employees' positions of approximately three hundred.

A labor management committee was established that meets monthly to exchange views on matters affecting Raytheon and its employees. The current five-year contract is effective until April 2005. No labor strikes or disruptions have occurred since the privatization.

Raytheon implemented the privatization-in-place with a business approach. It implemented new processes, worked off the backlog, realigned the organization, and will double the business in five years, all without reducing customer service levels.

The bottom line: NAWC Indianapolis privatization-in-place has been positive for the customer and community and for Raytheon and its employees. Thank you.

TEMPORARY CHAIRPERSON JAMES: Thank you very much. With that I will open it up for questions from the Panel.

PANEL MEMBER CAMM: You mentioned this as part of the benefits, that you were able to avoid the costs of base closure. I presume a large chunk of those were environmental costs.

Would you talk about how you avoided those and how it was managed?

MR. SARGENT: There were a variety of costs associated with that one thing that is important I think for folks to remember, that this was indeed a BRAC action, so the NAWC facility went through the entire BRAC process, and is still going through that today in terms of the property transfer and environmental cleanup and so forth associated with the government closing the base. Privatization turned out to really be the preferred reuse of the facility.

With regard to cost and the greatest cost savings, the greatest cost savings of the process occurred from the cost avoidance of the close and move option, where the government was going to do a variety of very expensive things including replication of facilities at other locations that already existed, and a huge amount of cost associated for just moving the employees from one facility to another, and things of that nature. So there were a variety of costs, but it's mainly the option of avoidance of the close and move option.

PANEL MEMBER CAMM: In terms of defining what those physical assets are, one of the challenges in an acquisition of this kind is defining what those assets are so you can develop costs. How did you all manage that to make it easier? Is that a problem or was it?

MR. WHEELER: The due diligence process in this transaction turned out to be very complex. Because of the government's ethics rules, the government's conflict of interest rules, all of the bidders on this deal were looking at this as if it were an acquisition as opposed to just an outsourcing contract.

The level of due diligence was much more complete. They needed a lot more information, but they just couldn't come in and kind of drill in the site like you would in a normal acquisition. And in fact the process we went through was fairly complex.

We asked every one of the competitors to submit, what's the information you would like to see in a due diligence effort? Then the City and the Navy, and then at that point that's actually how Arthur Andersen got involved. Arthur Andersen was brought in and involved to actually help put together the data collection effort that would satisfy the data request for all of those companies. And then all of the companies received the same data.

They also had a very structured on-site business where they would ask questions, but we had to be very careful that the

employees that met with the contractors were employees who would not be working; who would not be bidding; they would be retiring; or would not be working for the subsequent contractor. We had to manage all that very, very carefully.

I must say that the now Raytheon employees just provided an incredible depth of information there, in that due diligence effort. Without that effort we couldn't have made that happen.

PANEL MEMBER CAMM: People often argue that that kind of interaction up front with potential offerors slow the process down, yet you all did this very quickly. Do you have any suggestions on how you were able to do that?

MR. WHEELER: Well, really two major comments, and that was a commitment to speed at both the City level and at the Navy level. As I said earlier, we went into a whole variety of issues, this was a fairly complex agreement. I presented issues, and they basically said stop, we're not interested in that. They basically sat there and between them agreed on what made sense.

It was essentially the option of both teams to make it happen. That was the position of the Navy and the position of the City. We had, as you might expect, lots of barriers and lots of issues, and the conflict of issues. When we ran into a barrier, the team got put in place to go fight the barrier, we just kept charging.

We didn't let any of those theoretical barriers stop us from moving forward. We had to assign people to focus on finding a way around that particular barrier. So we didn't let it stop us. It was very much a whole series of parallel processes, and you just applied more hours. You found more hours in the day to do it, to keep it on track. But it was not easy, and without the leadership on both sides, it wouldn't have happened.

PANEL MEMBER CAMM: It's sounds like the forcing function in this case was the BRAC decision and some leaders were able to pull together this thing and act very quickly.

When we look to the rest of the government and the potential for doing something like this elsewhere, do you think this could be applied in other settings or would it require a BRAC kind of action to precipitate it this sort of quick action, or do you have any insights as to where this would work elsewhere?

MR. SARGENT: I would make the comment that, and as I said, originally we kind of looked at these options as defense mechanisms. As you know, in any community that's threatened, we usually throw the laundry list away and do what you can do to fight this BRAC thing off before it gets to you.

We had proposed more than once about some very creative things like why can't we team with industry and share some of our equipment and things like that. Very candidly the answer at that time was, you can't do that. There are these issues and these issues and these issues. And there was always a list of concerns.

Now, I think since then there's been some very creative lease arrangements done between active government agencies and contractors. It was just at that time it didn't work.

So my answer to your question in part would be certainly some of what we did in terms of sort of this outback position project process, where everybody kind of worked together, could be done on a micro level and function on a similar way to maybe how these things are done today. We just didn't have that option.

So of course it was a BRAC function, so it was an all or nothing deal. We are going to do the whole base or we are not going to do any of the base.

MR. WHEELER: I would add one thing to that, that yes, BRAC was the driver that kind of started this whole process, but the decision to do it in a year was a recognition that time was the

enemy. If you look at any of these other BRAC actions on technical facilities, your best scientists and engineers, they just start flooding out the door. They have a lot of opportunities.

We had, at the time this was happening, an incredibly tight labor market here in Indianapolis. Anybody with good technical skills could easily find another job, and indeed for a better salary. So my point being, if you wanted to retain not only the value to the Navy but the value to any potentially acquiring company, you had to operate fast or you were going to lose that very thing.

So, it was real - -yeah, the BRAC started it, but it was a recognition in leadership that you can't dink around with these things for four years like we did with some of the processes. You have to move fast, make fast business decisions. You might be a little bit wrong, but make the decision and look forward; correct yourself. If you have to sweep up behind yourself a little bit, that's fine. We did a lot of sweeping.

But the point being is that the leaders recognize that time is the enemy. Once the decision is made, you had to move. And I think the BRAC was the trigger for the decision to move, but following that we could have taken four years in this transition, but it wouldn't have worked.

TEMPORARY CHAIRPERSON JAMES: Is dink a Navy term?

(Laughter)

Robert and then to Mark.

PANEL MEMBER TOBIAS: I'm interested in the question of whether or not what you all have created here is applicable somewhere else. What I heard was that BRAC made a decision to target this facility, and Mayor Goldsmith made a decision to try to create something that would keep his tax base and jobs in Indianapolis. Then the Navy made a second decision, well, maybe

we are going to lose these folks and maybe this BRAC decision wasn't such a good idea after all. So, given all of those interests, how do we create something that makes sense?

(At this time Chairman Walker resumed the Chair.)

My first question is: Have you done anything to compare the costs if this entity had stayed in existence over this period of five years, and the government had funded this effort, what would be the comparison cost to the government of the services supplied by that entity, as opposed to the services supplied by Raytheon?

MR. SARGENT: Well, the 15 percent cost reduction, the number that was thrown out, I did not mention in my slides, that one of the interesting things about this was that the Indianapolis site was already the lowest cost provider in the Naval Air Systems Command Field Activity Network, so NAWC Indy already had the lowest labor rates of any of the other facilities. So we started off with what I think most considered to be a very efficient organization.

However, the cost savings that was put forward was based on the Navy's data in terms of where they thought that rate was going to go over the years, and where we went forward with that.

As far as being able to compare those things in the out years, apples to apples, there's an awful lot of variables involved there. I would say, as Jim mentioned early on, NAWC Indy had experienced three consecutive years of record receipts in terms of customer work. So it wasn't put on the closure list because it was not self-sufficient.

In terms of being able to say would that trend have continued, indications would seem to be that. But it would be very, very difficult to know. The Navy, at that time, was going through a kind of blended rate process as well, where NAWC Indy was in essence subsidizing some of the other facilities that weren't doing so well. And it turns out that impacted the rate as

well. So it's difficult to answer that question in terms of comparing those things on a head to head basis.

PANEL MEMBER TOBIAS: So it's not clear that the government has saved money over the five years, but what happened was, that you all created an entity which allowed the Navy initially to correct for the BRAC decision.

MR. WHEELER: Well, as best as I know there were two sets of estimates run that got at the cost question. The first was the initial comparison that was used in the base closure analysis itself. The Navy projections of what it would cost to run in place and what they expected to save by closing and moving. Our business proposal that came forward was compared against their expected savings from closure. So this was both in terms of a one time cost, and sustaining annual cost savings. So, in the original business case, that was it.

In the second round when we were getting into the negotiations, there was a separate feasibility study run, which was going in and doing a detailed business case analysis. This was run by the Navy. This is not done by the City. They had an internal group that did this, where they were actually looking at various issues in the negotiations and in the contract. The 15 percent requirement sort of comes out of that cost savings requirement where they actually then had to go in and do an internal business case where they had to convince all the senior management in the Navy and whoever else had to be involved in that, the White House and others, that in fact this was in the best interest.

So as far as I know, those are the only two long-term cost savings studies that exist. The GAO has done a couple of after the fact assessments of the privatization, but no one has really tried to go back and say, okay, if this had indeed stayed government, what would the cost be? As far as I know, that

doesn't exist. Those two studies do exist and can be found and put in the record. I assume we would have to go back to the Navy to get the feasibility study.

PANEL MEMBER TOBIAS: No, I'm interested in this question because the issue is: How do we stimulate those employees, those government employees in place on a regular basis to improve their efficiency and their effectiveness? How do you make that happen? That's the first question. My presumption is, that when you're doing that on a regular basis, then these issues of creating artificial numbers to outsource or creating privatization comes into sharper focus. I mean, do you or don't you? And so that's why I was asking about that comparison.

CHAIRMAN WALKER: I think we need to move on because we have got to try to break for lunch that has been set up, so Mark.

PANEL MEMBER FILTGEAU: I'll make it quick. Mike, both you and Donna worked for the government before Raytheon or was it both of you?

MR. SARGENT: We both did. We both worked.

PANEL MEMBER FILTEAU: How about you Mike, were you a government employee or were you a long time Raytheon guy?

MR. MUTEK: No, I was with Hughes. I was acquired by Raytheon.

PANEL MEMBER FILTEAU: We have all been acquired. Kind of corporate America. So, I'll use Raytheon in sort of a Catholic sense in the whole line of the companies that led to you. Could you, and I know you guys had experience with a big A-76 on Guam as well as with this rather unique privatization, can you kind of compare and contrast those experiences?

MR. MUTEK: I will tell you, this question has been asked before and in that setting I said what I remember vividly at the beginning of this privatization-in-place, was that the employees at NAWC had an enormous sign that said Welcome Hughes. I have

never seen an A-76 where the contractor was welcome. And I don't mean that as a joke.

The A-76 process is so contentious, so adversarial. It's fanned by so many emotions that it's not a welcome mat. The transitions there are very, very difficult. You're always losing people because of the PPP (Priority Placement Program), and even after the transition starts.

My worst fear in A-76 was realized in Guam, where we questioned whether we were going to get enough of our workforce.

PANEL MEMBER FILTEAU: So they literally weren't there to come to work for you; they had found other things to do?

MR. MUTEK: Correct. Whether it be the fear of coming to work for the private sector or whether it be the impact of the PPP and soft landing. What was good here was the fact that we were able to retain the vast majority of the workforce. That is extremely important. The loss of corporate memory would have been devastating.

On the A-76 you're not just doing the grounds keeping, but you're getting -- the way I like to talk about it, it's a bull's-eye. When outsourcing, the private sector first looks at the center of the bull's-eye of the target. That's our core competency.

The government has parallel issues that's inherently governmental work. That next ring around the bull's-eye is where you really have to work closely with the provider of the services. You don't really give up management when work is being performed by someone else, you have to work in close collaboration.

And if in that process of outsourcing or in converting to the private sector, you lose corporate memory/ability to perform, there's trouble. That's the lesson of some outsourcing in the private sector. That's why you don't just outsource to the lowest

cost. If it's that close to your target, you better be working for best value.

The bottom line, Mark, I know you like to get to the bottom line, the transition here was a lot simpler than an A-76. We retained more of the workforce. The workforce, although it was very nervous about BRAC and what could happen, no where near reached the nervousness of A-76. Let's talk to somebody that went through it.

MS. CHASTAIN: I didn't go through an A-76, obviously. But, I mean, we were faced with closure, or retaining our job at the same location at the same pay with the same benefits. We embraced it. I mean, it was really tough times, but in the end it worked out very well for us.

CHAIRMAN WALKER: Bobby, one quick one if you can.

PANEL MEMBER HARNAGE: I appreciate your recognition of a volatile situation, and have a lot of things going for it, and I don't want to overlook the importance of keeping jobs for those people at their homes rather than disrupting them. That has some importance but it's representing the overall. We have some concerns about the impact on other installations, the capacity, and that certainly was a decision with the Navy to make.

Does anybody here represent the U.S. government or the U.S. Navy? Okay. So I'll have to take it with up with them. And I am concerned about the long-term cost of just the savings from base closure. But Michael, you and Donna said you worked for this other one before, before Hughes, what positions did you hold? What was your last position?

MR. SARGENT: My last position was the Assistant Commanding Officer and Executive Director.

MS. CHASTAIN: Well, before I was on the BRAC team at NAWC, I was the Director of Information Technology.

PANEL MEMBER HARNAGE: And at what point did you go to Hughes? Was it before or after the award?

MR. SARGENT: Well, I never went because I went over to work for the City and help run the projects.

MS CHASTAIN: I transitioned on January 6th with everyone else.

CHAIRMAN WALKER: I want to thank this panel. I apologize for not being here but I will look at the transcript. Unfortunately, things were happening in Washington.

So let's take a break if we can; reconvene at 1:15 and pick up on Panel No. 3 at that point in time. Thank you.

(At 12:05 p.m., the Hearing recessed for lunch, to reconvene at 1:15 p.m.)

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On the above date, the Commercial Activities Panel reconvened at 1:25 p.m., after having been called to order by Chairman David M. Walker, and the following proceedings were had:

CHAIRMAN WALKER: First, let me thank both of you for staying after lunch. We obviously are running late, and we apologize to you as well those on Panels 4 and 5 for that, but we want to make sure we have a chance to hear what you have to say, and have some interaction. So we appreciate your time, and I guess it's Skip that's going to go first. All right. Very good.

MR. STITT: Mr. Walker, members of the Panel, thank you for having us here today. I'm deeply pleased to be here with my friend and former colleague, Steve Quick, to talk a little bit about some of our experiences in Indianapolis with competitive government.

We will not endeavor to tell you how it ought to be done at the federal level, but instead we hope some of our experiences, successes, and perhaps a few of our failures might be illuminating

as you move forward on some of these important issues. I'm going to provide a high level overview of our experience in Indianapolis; Steve will then follow-up with a detailed discussion of some of the labor management successes, failures, and strategies that we used. Our goal is to do this very quickly in 15 to 20 minutes and hopefully leave some time for your questions. Steve and I have done this a number of times together around the country, and while we think we do an okay job, we always find that the questions are a little more insightful and probing, so we want to get to that.

As was said, my name is Skip Stitt. I'm a former Senior Deputy Mayor and Chief Operating Officer for the City of Indianapolis. I served the City for six years under then Mayor Steve Goldsmith. During my tenure with the City I ran our competitive government initiatives, the public and private partnerships; labor/management partnerships; some strategic outsourcing and regulatory reform. We're going to go through a pretty quick agenda today that includes discussing some of the challenges we faced; why we chose competition as a core strategy; talk about some of the bureaucratic and political barriers; some of the lessons learned; key results and outcomes, and then some general conclusions that we have taken away from that experience.

First, a brief overview on the city: Indianapolis was a successful city when the mayor was elected in 1991. A long history of fiscal conservatism on both sides of the aisle. In '92 when the mayor was sworn in, we had a nearly veto proof Republican majority on our council and we were rated as one the leanest city governments in America. I recall my early days in my first week of the administration having been introduced as the right sizing/competition/public private partnership czar. The City-County Magazine published a report showing that among the top 50 cities in the country with its population, Indianapolis was

already the leanest city government in America. They reports in an anonymous envelope congratulating me on my success, and wishing me well when I moved back into the private sector.

Laughter

Most importantly, there was absolutely nobody clamoring for change in Indianapolis. I heard the metaphor this morning about the platform burning. Nobody, except for Mayor Goldsmith and two or three people on his staff thought the platform was burning in Indianapolis. Nonetheless, as we looked forward, not four years but over 20 years, we faced a number of challenges. Our chamber of commerce delivered a report to the Mayor's Office titled: "Gift Report, Dealing with Indianapolis' Bid for Tomorrow", which suggested that as of the first day of the Mayor's administration we had a 1.1 billion dollar infrastructure deficit. That's not a big number in most of your worlds, but to put that in perspective, that is over twice the City's annual budget.

We had unfunded claims of liabilities of about a quarter of a billion dollars. We had successfully competed for and won the MOC II United Airlines maintenance hub, which you will see as you fly in and out of the airport. Unfortunately, at the time, we hadn't paid the 250 million-dollar hold that came through the Economic Development Committee or the 50 million-dollar hold on the police and fire pensions. In addition to this, increasingly, we realized that our competition was not based in St. Louis or even Chicago, but in the suburbs that immediately surround our city.

If you go to the tallest building in the city and you look out any window, you can see our county lines. You may also have noted that there are not natural barriers between you and our county line. People vote with their feet. So, when they don't like the services they receive in our community, because the costs are too high, they will move outside of our community where taxes are lower; they perceive services, the schools, and public safety

are better. Then they come downtown for Colts games but they don't have to pay for the public services we provide.

The fact of the matter was we really were on a platform that was burning. can tell you that even late in the Mayor's administration, most policy makers still disagreed with that.

It was brought home to me earlier on in the administration when I saw a billboard that was placed on one of our east-west corridors on the north of town by a suburban community outside of Marion County, which said, "Save thousands of dollars in taxes. Leave Indianapolis and move to Anderson, Indiana."

That brought home the very real competitive pressures that we were facing if we were going to be a successful city long-term.

We did what every public entity does when they are faced with a respectable problem, we created a commission.

Laughter

We called ours the SELTIC Commission, an acronym standing for Service, Efficiency and Lower Taxes for Indianapolis Commission. In basketball, in Larry Bird-crazy Indiana, that was continually fixed, spell-checked to be C-e-l-t-i-c.

(Laughter)

We interviewed nine local entrepreneurs and 100 public and private sector volunteers, and said, "If this were your business, how would you run City Government?" We relied on competition and market forces to create change. Our Chair was Mitch Daniels, a name you may be familiar with. We only had two rules, which some of you may be familiar with, no reports and no sacred cows.

With that in mind, we began the process of identifying opportunities. Our rules were pretty basic. We looked for low hanging fruit. We started relatively small. What is small in Indianapolis would be infinitesimal in your worlds, so small is a relative term.

We used a sophisticated test, suggested by the Mayor, that things with multiple providers in the Yellow Pages might be businesses we might want to look at.

We talked a lot to internal and external customers; got a lot of input from employees and entrepreneurs, and looked at areas that were subject to innovation and technology.

We ran into a number of barriers and bumps, and we found we had a little baggage in the big four: Human resources; legal; finance and purchasing within our own organization. I had the privilege of giving this and similar presentations in about 20 different languages via translators, and every public servant begins nodding when we hit that bullet point. The quickest way to be told no in Indianapolis City Government in 1991 was to go in and question any of these offices. They were not bad people. They were very good people who were responding to their work environment.

I convened the top 50 managers in those areas and said, "What is your number one strategic goal?" After an hour's worth of work, we concluded that their number one strategic goal was, "Don't make a mistake."

Their number two strategic goal is if you do make a mistake, ensure that it doesn't wind up in the Indianapolis Star, our local newspaper.

It is impossible to transform an organization when those are your motivating criteria.

We also began looking at strategic tools, all of which we were lacking at that time. We used activity based costing to learn what our costs truly were. This is a tool that you use, not an outcome.

The goal is not to learn that it cost \$407.00 a ton to put asphalt in potholes, but to learn how to lower that cost using that data. Similar to one of the earlier questions in the prior panel, I

guess these people wake up every morning and focus on cost and service quality. We became almost maniacal about performance measures, focusing not on input, but on outcomes in each case. We also implemented a very robust pay-for-performance and incentive plan.

Nothing animated our workers quite like owning a piece of their public company and sharing in those savings. We essentially created a system that if you meet all your performance targets; we will give you 25 percent of all your savings as a one-time incentive. That resulted in our operating budget going down seven years in a row.

Finally, we Asked departments to look at your core competencies. Focus on what you do best. If we weren't first or second in a line of business, we got out of it. The goal was not to be mediocre in three or four other lines of business; it was to be really good at the things that we did well.

The most important issue is people. It's the second most important issue and the third most important issue. Our competition programs succeed only because of great senior leadership inside the City; at the legislative level with our senior managers; mid-managers, and our labor partners, both their elected representatives and the line workers. Competition really requires a new look at labor-management partnerships.

Some of the lessons learned. I used to call these mistakes I made. I'm a private consultant now and I'm told that doesn't inspire confidence, so now we use lessons learned.

You have to create goals in congruence with incentives, upsides, and consequences. Everybody has to understand them. They have to agree upon them. When people are correctly motivated, they will react in an appropriate way. Public employees are good people who are overwhelmingly trapped in bad systems. You hear stories about people blowing their budgets at

the end of the year, which is sort of like the ultimate feeling. In the public sector that is entirely rational behavior.

You have got to change those incentives if you want to change the behavior.

Two, you need to benchmark a lot.

Don't benchmark against other public entities; benchmark against the best in class. You've got to communicate a lot. If I had one significant failure, which Steve will politely point out later on in his presentation, was that I did not communicate enough with our employees.

I came from a corporate environment where you send out an e-mail and everybody did it. I assumed that our 5,000 person City workforce would react that way. They did not. You cannot over-communicate with employees and colleagues.

Finally, no cookie cutter projects. Just because it worked at San Antonio doesn't mean it's going to work in Indianapolis.

To give you some of our results, we reduced our operating budget; this is for inflation over six years by about 20 million dollars.

At the same time that we reduced that top-level number, we invested another 42 million dollars into public safety, so the public service reduction was actually more significant than that. This is perhaps similar to moving resources from the field to the DOD example.

We quadrupled our City Budget Surplus, and reduced the property tax rate four times.

We completed about a billion three in infrastructure work; lowered our general obligation debt service level for seven years; and funded a number of the early potential financial problems that we had.

Probably the result I'm proudest of is that none of our line employees lost their jobs related to this. I think it is a red

herring to say that public/private partnerships must be bad for employees. In many cases they are, but if you want to use true anecdotes, we can find examples of great successes and great failures. It doesn't have to be bad for public employees. It can be good for public employees.

Dramatic reductions in labor grievances and dramatic reductions in accident rates. Why, you might ask? I was so concerned with the precipitous decline of these numbers that I convened the employees over lunch, and I said, "What's going on? Are you just not reporting them?" And they were very honest. They said, "You know, we share incentives now. We're tied tightly with our management team; their success depends on our success, and we got tired of paying lawyers to handle arbitrations because it comes out of our incentive pool at the end of the year."

So, we settle issues very quickly. We don't fight over things that aren't important. We do things on a handshake and look forward to continuing our business.

Pay and benefits have increased in every case. We never cut pensions; we never cut benefits; we never cut insurance and we never cut salaries in connection with the competitiveness effort.

Our employees in our Fleet Services Group one time chose to forego a previously negotiated pay raise, which I thought was a little strange. They asked instead for a higher percentage of the savings. Over time that turned out to work very well for them, as well as for taxpayers. Customer satisfaction improved.

There were lots of areas of competition, including wastewater treatment, billing and collection; solid waste collection and billing, which were overwhelmingly won by our public employees; fleet maintenance, overwhelmingly won by our public employees.

Administrative services like airport management tended to be something we weren't very good at. Our airport, is the largest private airport in the country. Street maintenance and repair

tends to be an area where our in-house team did very well. Mowing and landscaping maintenance tended to win a lot of votes in some departments and lose them in others.

A final thought, and this is sort of a gratuitous addition, the regulations and paperwork are an enormous problem in the public sector. We burdened our employees with tens of thousands of hours of needless paperwork, needless red tape.

We created a commission that sought to resolve those barriers, not only for public employees, but also for private citizens. It was pretty effective, and let people focus on the their specific tasks.

Wrap-up up on my points and then I'll turn it over to Steve for his part of the presentation. There are always going to be budgetary pressures. I used to tell people three or four year ago that we were in the good old days in state and local government in terms of budgets. Unfortunately that turned out to be true.

There are always going to be financial pressures. Competition is a proven way, when done correctly, to create value. It can also be very empowering for public employees.

Finally, we always urge folks not to wait until you're in a crisis. You are in a much better position to preserve your service quality, to treat your employees most fairly when you're operating from a position of strength.

Thank you for your time, and Steve and I look forward to answering some questions.

MR. QUICK: Good afternoon everybody. My name is Steve Quick. I represent about 500 city employees here in the Department of Public Works. I'll go down my presentation.

I want to talk about some of the challenges from the Union perspective that we had.

First of all as a Union we do not support privatization. We worked with the Mayor real well to change that concept to competition. We figured that if we had a level playing field, we could compete and beat anybody who we went up against. We proved that once we went into the competition process.

One of the good things about having this level playing field was our ability to gather experience by working with Mayor Goldsmith. We ended up getting all the information that we needed from the top to the bottom. Before that process we couldn't get any information: payroll information; cost information; no training; no education process at all.

One of the motivating things that happened occurred when Mayor Goldsmith ran for office. The Union didn't support him. We supported a Democratic candidate to run against him. Goldsmith won and this guy lost.

So we feared job loss. The Council was majority Republican, and to us in labor, if you Republican you must be anti-labor. So that was a fear. We knew we were top heavy with management, and we knew being top heavy that it would be hard for our employees to be competitive against the competition. Also, the management that was there before Goldsmith had no respect for the workers. Basically we were told to park our brains at the door and were dictated to on how to get the job done. As I said before the lack of training was troublesome.

One of the other challenges we had was the need to educate the work force. There's a new sheriff in town, so we've got to rethink the way we do business. That was not an easy task.

I agree with Stitt, that one of the things that did work was enhanced communication and respect. However, there's not a crystal ball to show you how you can make this process work.

One of the things we did learn in this process is that no one ever asked employees how to do it or how to save money. It was

always dictated. So basically most of the answers were with the employees that were actually doing the work either in the office or out there on the street actually doing the work. The employees that do the work day-to-day have the answers to be efficient and we proved that through this process.

One of the other things that we learned we had to change was rumors. There were rumors all throughout the work force that they were going to be fired, laid off, out of a job, and everything else. We had to deal with that, which was a lot of pressure.

I have a lot of respect for Steve Goldsmith, I don't know if he started the process or not, but he made himself available. He rolled up his sleeves; he took trash; he patched potholes with the employees; he talked to the employees about the best way to get the snow off the street, and he ended up being successful. But he had the courage to do that.

The other thing he did was hire a consultant who later ended up being the Chief Operating Officer. His name is Chuck Snyder, and he was really labor friendly. Before Goldsmith came in, a director would last maybe six months to a year, and you always got new directors and end up with new directions. You'd start going this way and back that way and back the other way.

Well, they ended up hiring this Charles Snyder, and he stuck it out for seven years. So that means when we sat down and we had a plan on how we are going to do business, we stuck to the plan.

One of the things that we had to deal with was the old management before Goldsmith got in there. There was discrimination and racism. We ended up filing two to three hundred grievances a year. When Goldsmith came in office, we had several federal EEOC complaints going on. There was no respect; no trust with the management at all. So even if we had a good idea, they weren't open to hear it.

Working with Chuck was great. We ended up, like I said earlier, sharing information and doing team building. We talked about savings with the City, and incentives that gave returns to the employees that actually do the work. Employees have got to have value. They must know that when you use what's on your mind and provide good ideas, they're rewarded for their good ideas. This keeps them going in a positive direction.

We learned other things through this process, which I think provides good information. For example, negotiation occurred every day. We didn't negotiate a four-year contract and say okay, this is the box we've got to live in from now on. Instead, we were very flexible. We sat down and talked everyday and did what's right.

It was hard for a lot of folks to do that, so what we ended up doing was building confidence and working with the Mayor who we did support.

When we talk about overhead, once we went through the training program which is called Activity Based Costing (ABC), we figured out what it cost for our equipment, personnel and everything. Well, the first thing we noticed is that for every three employees we had, we had a middle management person.

So there was no way we could compete. The problem we faced was that these middle managers were the guys that work the polls and elect the Republican Mayor into in office. However, the City ended up laying off nineteen of those managers.

The managers thought that because we didn't support Goldsmith, once he got in office he would lay off all of the work force and they would be consultants for the private companies. When he laid off the 19 supervisors, that sent a clear message that we were all in this together. We were either going to win these bids together or lose them together. That was a good message. That's when the partnership and team building began.

In that process we ended up changing some of our job titles. For the first time in history we ended up with crew leaders. Those folks would take the crews out that actually did the work. Instead of having a supervisor standing over you telling you how to do something and basically most times it's wrong anyway, we ended up having crew leaders go out, and assess the job, and say what the job needed. The supervisor that was left ended up being a facilitator to make sure we had equipment and tools that we needed to do the job.

One of the other things that was very frustrating for the employees was if we had a problem with our management staff, supervisor, manager, we could never get to their boss. He would always end up giving you more work to do. If you wanted to see the boss, it would have to be after work.

Well, one of the things that happened to us as a Union that impressed us with the Mayor; he put an e-mail system out in the garages for all the workers, janitors, and others. You could e-mail him every day, any day and he would even respond back to them. So that way you could skip over some of the barriers that kept you from communicating, which was a morale booster for us.

Like I said, we ended up like with a true partnership. The employees enjoyed more money, and we ended up negotiating, over a four-year period, a three percent raise each year. But on top of that, with the bonus and other incentives, it ended up being between three to five percent a year - and everybody likes money.

Before we started this partnership under this competition, we used to start in March and fight until January the next year.

Once we created this partnership and developed respect for each other, we went out to breakfast two or three times, and maybe lunch. In 40 hours we were able to negotiate a contract. Before this we filed two or three hundred grievances a year. What we realized and what really helped us to be an educated union is that

most unions represent three to five percent of the employees that don't want to work, who drink, take drugs, or don't come to work or whatever, as well as the 95 percent of the employees that come to their jobs to work.

So that 95 percent felt like the union didn't need them, because they came to work on time and did their jobs. So, what we did when I came into office in 1996, is reverse that view. We started communicating and representing that 95 percent that wanted to work. Meanwhile, that three to five percent that didn't either got on board and straightened their life out or they hit the door. We didn't have a problem with that.

We also realized that there was a cost to grievances. You know, when you go through those grievance steps, every step you go to ends up with five more management and five more union folks. You end up not getting anything done. But with Charles Snyder, we told him about some of the discrimination things that weren't done fairly before Goldsmith got in office. We sat down and he cleaned out everybody's file and we started from ground zero.

The other thing, which was real good, is that we ended up with accountability from management and union alike. If an employee was out working, plowing snow, and knocked a mirror off he got punished with an unpaid day off. But if a supervisor drove a vehicle around and had a wreck, they gave him a new car, you know what I'm saying?

(Laughter).

My point is, it just wasn't fair. So we ended up negotiating and agreeing on accountability across the board. These policies and procedures applied to everybody, including the City Government, which was an another plus.

One of the other frustrations for the Union was purchasing. It took 300 signatures to purchase anything you wanted, and then they wouldn't buy the thing that you needed until the end of the

budget year. They would buy a bunch of equipment you couldn't even use. Have people consult on the use of it or whatever so it ended up parked.

So we ended up creating committees that worked on equipment. We had equipment committees and safety committees; where the employees basically were empowered. It makes a difference when they know their voice is being heard.

So I will finish up by providing the end results and I'll answer any questions you guys have. We ended up with an educated work force.

Goldsmith is gone now and we have a Democratic Mayor. We're not in fear of our jobs. If he wants to compete, we're prepared, because we know what it costs to do business, so it builds confidence for us.

We don't have the purchasing bureaucracy. Right now we can make one phone call or we get on the radio and say hey, we need to pick up some asphalt. The city has an electronic system where we can sign off and pick it that asphalt in 30 minutes. You can't beat that.

We no longer have to park our brains at the door. In 1995 we got a Kennedy School Innovation Award.

Like I stated, in the beginning we supported competition but not privatization. We think that if the employees have an opportunity to produce and open up their minds and be a part of the process, we can save right there

We don't have a fear of losing our jobs any more. We have better communications than we ever had in the past and we have mutual respect for one another today because of it.

It's just fair for everybody to know my experience here in Indianapolis, I'm not saying one shoe fits all. However, if you give the union an opportunity to grow, and give employees an

opportunity to have their voices heard, I think we can all be winners in the process. That's one of the key things I believe.

CHAIRMAN WALKER: Thank you very much. Let's open it up to questions. Frank.

PANEL MEMBER CAMM: Mr. Quick, one of the issues that we hear repeatedly at the federal level is that as the use of competition expands in the federal work force, there's a real concern that the federal employees are not well trained to participate in this competition.

So I was listening, waiting for you to tell me that this was a problem for you all, and you never mentioned it.

Was that a problem for you at all or how did you deal with it?

MR. QUICK: We did two things. The first thing we did was create a union/management team, which consisted of several union employees and several management employees. We then put up on the wall a statement that asked what business we wanted to be in and what business we didn't want to be in.

Once we got that cleared up, we went approximately 18 to 24 months with ABC -- Activity Based Costing -- training. That's the type of training where we had to learn what it cost to perform our tasks. A lot of folks think that the cost is what the hourly rates are. Well, once we went through that process, we were educated about the cost of benefits that we have and other things like that. This brought our rates up about 30 percent. So that's the type of training we had.

Most of the other training as far as the actual work was minimal. The average employee had been there 15 years, so we were pretty unique when it came to being creative in the changes that we employed.

PANEL MEMBER CAMM: Did you have any concerns about how to write the proposals and how to fulfill all the requirements of the regulations of the competitions?

MR. QUICK: The City hired a consulting firm to come in and work with us on that. We did have concerns about that until they hired the consultants to work with us side by side. We had a few attorneys as well.

PANEL MEMBER CAMM: Was that a standing team available for each of the competitions?

MR. QUICK: Yes. That was a standing team for us. We couldn't have done it without them.

CHAIRMAN WALKER: Mark.

PANEL MEMBER FILTEAU: Mr. Quick, first of all I really like your presentation. Sean and I were sitting here thinking boy, if there were only ten more like him.

When you made the management shift from spending the majority of your time and the Union's energy defending marginal employees, and more towards representing the majority, did you get a lot of internal resistance to that? I mean, were people throwing bricks through your window?

MR. QUICK: I'll tell you what happened there. In Indianapolis we don't have a closed shop in the union, and it's voluntary only. Once myself and the executive board that I'm with started representing 95 percent of the employees, we had about 175 employees join our union. These people had been working there 15 to 20 years and had never participated in the Union.

PANEL MEMBER CAMM: Okay.

MR. QUICK: I think that speaks for itself.

One other thing I didn't mention either is that I work for the City, even though I represent 127 employees in the private sector, which is the wastewater treatment plant. I spend 40 hours

a week communicating with employees at the garages, and I go out there and talk to the folks that are actually doing the work as well. We've built this partnership where no matter if the management is wrong or the union is wrong, we do the right thing.

When employees are clear on policies and procedures and what the costs are, they don't grieve. For example, if you are late, there's nothing to grieve. You're late. If you didn't come to work yesterday and you didn't call in, you didn't call in, and that violates the policy.

So we took the challenge of being straight and getting down to business. just got re-elected two weeks ago for my fourth term. I have three-year terms.

PANEL MEMBER SOLOWAY: Well, we have heard about this in fairly broad terms of the areas you looked at regarding competition. would like to ask either of you, did you use public private competitions in all the cases, or were there cases when you chose not to?

And number two, if you look at the A-76 process and whatever else in the federal level, can you identify a couple of other key differences that might exist between how it's done at the federal level and how you all would do this at Indianapolis?

You have already talked about activity-based costing which is something that we would all like to see if at the federal level, because that's one immediate difference that we have.

MR. STITT: I think Steve alluded to this in his presentation, the approach that I think not only our labor partners but middle management folks took in terms of where we were going to compete.

It was not uncommon for a group to look at a competitive vendor and say, "We're not going to go after that work. We can get city-wide technology outsourcing."

The incumbents looked at that and said, "We're under-trained; we're understaffed; we're under-equipped; we're not in a position to compete for that work." We will facilitate or at least not fight that outsourcing and we'll enhance the partner you then select.

Again, that was not uncommon. There were also areas where city employees won continually. There were a number of those in public works, which is the group that Steve represents, where we began postponing competitions. If you're winning 98 percent of them, let's not go through the paperwork process.

The third point I would say, and Steve mentioned this specifically, is that most folks identified the business they wanted to be in and those they didn't want to be in. They used the GE 9 Cell Core Competency (Makers) model and decided there were some businesses we wanted to be in that we could compete at. There were others we didn't want to be in. We didn't want to be in large diameter sewer cleaning for safety reasons; we didn't want to be in litter pickup because we were competing with welfare-to-work candidates in some of those cases.

They were very thoughtful in figuring about where they were going to go. If you can't be first or second in the market, let us not be in that market. We found out that we were really good at filling potholes, so let's do more of that. We're not very good at large diameter sewer cleaning, and rather than fight that battle, let's retrain ourselves and move into areas where we could win a few awards.

PANEL MEMBER SOLOWAY: So, when you did these cuts and made these assessments, did you then go into the competitions as just another bidder?

Are you saying that you collectively looked at different business areas and determined if you were going to be competitive

and whether you wanted to be in that area or not? Does everybody go in as just another competitor or were there differences?

MR. STITT: If you contrast it with A-76 and some of the other processes we have seen around the country, my colleagues competed like they were a vendor. They submitted their documents at the same time using the same form. We got into some interesting debates about bid and bond requirements and pre-qualifications that we were able to resolve. But this relates to another competitor in that process.

With respect to A-76, we have looked at it and we've testified about it. It's not optimal. It's a little too cumbersome. I'm not aware of anybody at least in the present day that really likes it. All of the participants seem to not like it. I mean, it takes too long and it's not flexible enough.

Steve was talking about a situation where there were times they won a proposal -- one time, which I remember distinctly, on street sweeping. said, "This is a big capital investment and you're not in that business today. I need you guys to take a pass on that because I don't think I can sell that." We shook hands on it and went on down the road.

The next jump ball we came to, our labor partner won. There was no grieving; no litigation; no fighting over that because we were both congruent in terms of providing great service.

MR. QUICK: When it comes to technology, the government here in Indianapolis was 10 to 20 years behind the private sector. So when it came to technical things we were not competitive. However, we were much more competitive than the private sector on labor-intensive functions.

CHAIRMAN WALKER: Kay.

PANEL MEMBER JAMES: I'm sure that somewhere something happened that provided you with the ability to shake hands and move on. The relationship of trust developed so that you could do

that. hear in some of what you say that it had to do with being goal oriented and being congruent in what those goals were.

Steve asked you, now Skip I would like to ask you, we want to know if you had any bricks through your window as you moved the union in a different direction? Trying to get management to understand the importance of this kind of partnership seemed to me to be just sometimes insurmountable. used to think that it was a Democrat vs. Republican issue; Democrats were pro-union, but that's just not the case. It fundamentally does not work out that way experientially. I think it's more management being hesitant to develop those kind of partnerships.

How in the world did you change that culture?

MR. STITT: As Steve pointed out, we had a really small but not insignificant number of managers who were not able to work in the environment that was culturally or gender reversed. Those folks we simply asked to leave. They were gone. We were not going to negotiate on that issue with the managers. This is how we are going to conduct business. If you don't want to do it that way, you should find something else to do.

For the other managers, we said gone are the days when line employees get a two- percent raise and you get an eight percent raise, so they get no incentive and you get a big incentive. It's not a metaphor I like, but the union has often said that we tied them together, so that their success rested on each other. Therefore, it dramatically changed the roles of our managers. Our managers who could become a coach, a facilitator, or who metaphorically speaking could walk back for their employees to come behind and do the work, were successful.

Those who couldn't get through that process, were offered up very significant training over the course of the first 18 months. This was done jointly with our labor partner. We ran several

hundred people through IUPUI's School of Public Environmental Affairs, doing leadership, communication, and strategy training.

During that process, if the managers weren't goal congruent, then much like Steve suggested, some of his folks had to hit the door, we encouraged those folks to hit the door as well.

What we found though, was overwhelmingly, and I think these percentages were 95 or 97 percent versus three percent of the people wanted to get on board when they saw the new environment that encouraged risk-taking, and rewarded people to perform.

MR. QUICK: I would like to say one other thing too that helped us clean up our shop because most of the folks we had problems with had been there for years. We ended up locking in our union numbers. For example, we had 251 in Street Maintenance, and Goldsmith agreed that we could continue to have 251. It was hard to grow and compete because we were trying to stay efficient, but if we lost three or four employees that didn't want to work, they were hiring three or four employees back.

What used to happen is when you lost a union job, they hired another management person. So even if the employee was no good, the union had to fight tooth and nail because once you lost that investment, you never got it back.

A lot of times the union got a bad name for representing employees that didn't want to work; or who were no good. But the reason that happened is, once you lost them you never got them back. When you can lock in that number, it helps the union clean up its shop.

CHAIRMAN WALKER: Sean, and then Robert.

PANEL MEMBER O'KEEFE: I just want to follow-up on Kay's line of questioning, but first I have got to say you both have offered the most uplifting testimony that I have heard in a long, long time. It personally makes me feel very good to be a public servant. You clearly have an attitude that is infectious and

should be transported around everywhere. It's one tremendous opportunity, there's no doubt about it.

I've had an opportunity in between my public service, a stint of teaching in graduate school. I used Indianapolis case as an opportunity to demonstrate how the use of some of those business principles and management/employee relationships can work. It's great to put faces to a lot of names that I have read about for so many years. That's a personal delight as well.

However, I vividly recall, this was a long-term kind of transformation; it was something where the new city administration began with a different agenda. The union began with the kind of mind-set that Steve described very aptly in terms of how they reacted.

It also speaks about how the agenda has changed, and the shifting view on the part of management, upon the administration, and the political leadership, as well as on the part of the union. Based on just the trend line that I can recall, this took the better part of three to four years before it really settled in to the stage where it was up and running.

If you had to go back in time, how would you do the same thing faster? What would be the two or three things that you would emphasize first on the front end?

MR. QUICK: I would say first you need to have communication and trust. If you have trust and communication, you can almost move mountains.

One of the issues that I heard about regarding privatization and competition and other areas is that most of the line work force cannot work with middle management because there's no trust there.

I think one of the things that Goldsmith did was open the lines of communication. We had access to any information that we needed. It's not like it was top secret because it only benefited us. We ended up getting any information we needed. We

communicated on a regular basis. All employees could communicate with the management through the e-mail system right out in the working garage. I'm not talking about in the offices where you have to go in and ask your boss if we can get on it. All the union officers that represent the employees have terminals there and you can communicate, and that made a lot of difference.

You didn't have to deal with rumors when you're dealing with the actual facts.

When Goldsmith rolls up his sleeves or the director comes out and works with the employees and talks to the employees and shows them they care, or when the employee says this piece of equipment is no good, we cannot use it; this is what we need, and then they end up buying it.

We have to build that trust and that respect. You can go a long way with it.

MR. STITT: I would concur with each of Steve's comments. 'm a lawyer, recovering lawyer I guess.

(Laughter)

A former litigator who approached labor/management partnerships as you would anticipate a former large firm litigator would approach it. Quite frankly it just wasn't any fun. Our first year we got a lot done but nobody was having any fun, and none of us wanted to spend the next three or seven years doing that. think a realization of that was pretty important.

Second, I think I began to realize that some significant number of folks, both in labor and management, had an awful lot invested in maintaining this significantly unpleasant status quo. assumed that because I really disliked it, everybody else did. In fact that wasn't right. There were a number of folks who did like it.

We had a significant turnover in labor leadership -- from our traditional approach of pounding on the table and arguing for nine

months, to Steve's approach that he and his colleagues share now. We had a big turnover on the management side as well. Quite frankly, if I hadn't come around the corner, I wouldn't have been around very long at the City either.

I think the final thing is when Steve talks about communication, he's not talking about just memos going back and forth, or being told what's going on, but his ability at 6:15 in the morning to walk into the Mayor's office without a meeting and push open my door to talk about something that happened on the night shift. We talked with them, shook hands, and we are done. It was done. If we are not amending the contract, we kept all the practicing lawyers out of the room.

(Laughter)

With all the due respect to the practicing lawyers, I was one and loved the profession, but it was an entirely different approach. That expanded because of the good work by Steve Quick, Steve Vantouse (our assistant to the Mayor), or our transportation director Mitch Robe, and Chuck Snyder. That began to take effect with more and more people, and it simply became how we did business.

MR. QUICK: I just want to say one other thing to answer that question. When Goldsmith first got in office, one of the things that we felt he was after was to privatize all the trash collection. Then he showed up out there to talk to the workers, he had five or six bodyguards. This was because you had middle management saying things like this guy is going to create whatever they want.

Before he left office everybody out there was lined up to take Christmas pictures with him; holding him; hugging him; taking the picture, whatever.

They went from one extreme to the other. So communication is the key.

PANEL MEMBER FILTEAU: Let me ask one follow-up question to what you just said. Are you saying that the former middle management probably hindered the current situation that Skip was just describing, that they fed the paranoia of the work force?

MR. QUICK: Yeah. They created fear. Even if it's a good change, most people don't like change, period. lot of the middle management was feeding misinformation to everybody and had them paranoid. They were saying that "hey, they're getting ready to lay you guys off" or "they're coming after you." That of course got everybody anxious.

Compare what happened when Goldsmith first went out there at solid waste, he had four or five bodyguards with him; and these folks are hollering, screaming, talking about throwing rocks and stuff like that, to the last few years before he left. They lined up to take pictures with him. That change speaks for itself.

CHAIRMAN WALKER: Bob and Colleen and then Frank.

PANEL MEMBER TOBIAS: I'm very interested in two things. One that it was Goldsmith who had the idea that the city was in trouble, long-term. And number two, what I hear Steve describing quite dramatically is the willingness of Goldsmith to get involved in the messiness of creating a relationship with the union.

Now, you described that as trust; you described it as communication. But I would like Skip to describe it, if you can, what it is that you observed in that behavioral leadership exhibited by Goldsmith that resulted in the trust that Steve described.

MR. STITT: I think there were several things. First of all, an open mind. We talked a lot about privatization during the campaign. I wrote all the stuff. was just a policy person. Afterwards, I think we all became increasingly impressed with the reservoir of talent we had in-house, and increasingly concerned about the very bad systems that constrained our folks.

Secondly, this is not a Republican or a Democrat issue; right? The Mayor picks up trash, plows snow, and does really basic stuff and there's not a GOP way to pick up trash and a Democrat way to plow snow. You all can get thrown out of office irrespective of your party if you don't do it and don't do it well.

I think he approached it quite practically. We didn't get the snow plowed very well one time and it was well documented by our local TV stations and our newspapers.

(Laughter)

That First Amendment is a tricky thing. So the Mayor puts management in a room and labor in a room. The managers said, hey, we executed the plan; things went pretty well; people are just complaining. Then he went to the union, and comes out with page after page of stuff that he then gives to the senior management team to go fix by tomorrow morning. I think that really impressed upon him and confirmed his sense that the folks who were out there doing the work really knew what was going on.

But it takes a lot of time sitting around with folks in solid waste who throw trash, and it takes a huge training investment. However, that's the first thing we all want to cut from our budgets when it gets tight, is our training dollars that are used to send our folks over here, our managers and our laborers and our union leaders to take these courses and get them committed. Also, it takes a lot of time to handle the political flak that gives public employees incentives. He was willing to wade into that.

An important part of this process was the personal time, the one-on-one meetings, and access to the Mayor's office, I think Steve, Dave Bostic, or Jerry Richmond were in my office a couple of times a week, and sometimes everyday when we started on this. And I was the only person they were visiting, right? They were

working on a number of issues, and that just became how we did business. That was just really part of the process.

It wasn't that way early on, but it evolved over time, because that's what it took to get it done.

MR. QUICK: I just want to say that what Steve Goldsmith did was not what is politically correct, but what was the right thing. I think he had the courage to do that, and he got beat up pretty well for it by the newspapers and everybody else. Our take from labor was, he got beat up for doing the right thing.

I mean, most folks said don't work with labor, what's wrong with you? You know what I mean? They didn't support you; why are you working with them? But he had the courage to do it anyway.

I think the one thing that convinced him was when he lost the snow fight, and he talked to the employees who had 1,000 ways that we could have done this job, if they could have convinced management if they had just listened. He did not lose any more snow fights after that year.

(Laughter)

And it was the employees that put the plan together.

CHAIRMAN WALKER: Colleen and then, I think, Frank and then Bobby.

PANEL MEMBER KELLEY: Sir, I'm sure in some regards this is beating a dead horse, but if employees were not empowered tomorrow and if the mid-level managers were reinstated, all of this good that has been done would be undone pretty quickly?

MR. QUICK: Exactly. That's one of our fears because we have a new mayor now and it can all be undone, because everybody wants to make their own mark when they get into political office.

PANEL MEMBER KELLEY: You talked about having jump balls, where some of the work was not worth re-competing, because the employees kept winning. Is there a system in place that tracks where work that has gone outside to the private sector should

continue to be done by them> Is there an opportunity for the city employees to do it, or are those decisions final?

MR. STITT: I think the question is, once something is outsourced, is it permanently outsourced? Our experience has been no. In street maintenance you win some; you lose some. With larger assets, wastewater utility, airport privatization, it would be very difficult for us to get back into those businesses, practically speaking.

I am familiar with the debate that says let's grow our union by going and getting into new lines of business. I appreciate Steve's desire because he has a number of folks he wants to keep gainfully employed. Practically speaking, it is very, very hard for the public sector to launch into a new business, particularly if there is a technical implication or an asset investment that's required. And that's just the practical reality of it.

For example, we always have significant capacity in-house for solid waste. I didn't want to be in a position where we were vertically integrated by an outside partner on solid waste.

PANEL MEMBER KELLEY: Well, there were times of course on any contract whether it's in-house or outsourced, sometimes even in the federal agency where the provider's price multiplies exponentially over the years when nobody is watching. That's why I was curious if there was a tracking system.

MR. STITT: Absolutely. Even though we are no longer there and haven't been for years, we pursued competition to the end. But we would rather not be interpreted as being focused on public versus private. The employees voted to privatize. It was about value for us.

We found out that we did a lot of things well, and we didn't do some other things well. We had sixty-eight of these projects over the course of six years. We never lost more than one or two

of our 29-member council on any particular vote. It just became how we did business.

CHAIRMAN WALKER: Frank.

PANEL MEMBER CAMM: I'm very impressed by the trust and cooperation, and I presume that part of the reason that trust is possible is because you've been able to avoid having to lay off any workers or any of the union workers.

Could you say more about how you were able to do that while at the same time achieving the savings you did?

MR. STITT: Well, if you divide the city in half, we're about half public safety, sworn police and fire, and about half public service. Our public service side, Steve, represents about a quarter, a third?

MR. QUICK: Probably about a third.

MR. STITT: About a third of the city employees. So none of our managers are represented at all; okay? We did most of the downsizing through attrition. The folks who didn't want to get along on race and gender issues didn't have an option. They left. The rest of the downsizing was done largely through attrition or outsourcing.

We used this approach when we outsourced an asset like the wastewater utility. We encouraged this strongly and it's a process we used through higher comparable wages, benefits, pensions and layoff policies except for cause, and union recognition.

Well, if you do that, you really have addressed the issues that exist; right?

PANEL MEMBER CAMM: Were those conditions in the competitions? The fact that they were conditions of a selection?

MR. STITT: They were in all but a couple of our earliest solicitations. It really came to a head around our wastewater. Steve and I both get attacked by the right and the left on this,

which means we are somewhere in the middle, which is probably where we want to be. The folks on the right who used to attack us would say, "You shouldn't be doing that; you're artificially setting wage rates too high," which is not true in Indianapolis because they've got a competitive wage rate.

The fact of the matter is, outside of our non-postdated workforce, we're down 50 percent. In terms of statistics, we have reduced the budget seven years in a row; and we've reduced grievances. So I'm reminded of the economist who looked at something like this and said that it's really interesting how it works, but does it work in theory.

(Laughter)

The fact of the matter is, it just seems to work. Making that commitment at our wastewater treatment facility saved 18 million dollars a year.

Part of this is through attrition. We may not have fewer people in the end, but the same number of people will be doing more work as we get more efficient. That's just the metric. You can't save a lot of money if everybody is doing less fewer units of work going forward. Our partners have said, "We're happy to work harder. We want a piece of the pie when we perform."

MR. QUICK: Let me say one other thing. We went from 24 job descriptions to eleven, so we broad-banded our jobs, and we had our folks do other work. That really helped us out. At the same time we increased their wage rate. For example, we used to have all our workers classified as truck drivers. Well, basically these workers maintained the streets, but were not truck drivers. Once they drove the truck to the site they got out of the truck and did the work. So, we changed the title to maintenance operation technician, which put them in a higher class, paid them more money, and made them more versatile. That way we had a driver and a laborer all rolled into one.

What I'm saying is things like that make a difference.

CHAIRMAN WALKER: You were saying that you weren't to the right or left. Sounds like you were in the sensible center. Bobby, did you want to go next?

PANEL MEMBER HARNAGE: Yes, certainly. appreciate you giving us your time today. Did you hear the Crane presentation this morning?

MR. STITT: Yes.

PANEL MEMBER HARNAGE: It's very closely related. 'm seeing a little bit of difference there, but a very similar operation.

You mentioned, Skip, that in the campaign it was about privatization. As I understand, once you got on board and saw the in-house workforce, that you went from a let's privatize everything, to let's compete; let's be competitive. So when you reached a decision that you were going to compete or not compete, that was from the standpoint of allowing the employees to compete or not compete.

When you had a difference, how was that settled?

MR. STITT: When we had a difference on what we would be competing?

PANEL MEMBER HARNAGE: Right.

MR. STITT: Remember, we stole a page out of Steve's play book and used the nine cell analysis that GE uses to determine core competency. We listed all of the businesses we were in, and found that we were in 225 lines of business. Frankly, other than GE, I don't know anybody who's in 225 lines of business. It's unlikely to me that the stars would have aligned and Indianapolis would have been the second organization in the world to achieve that feat.

So, we really did it one at a time. We looked around and said where does it make sense? We made politically smart decisions early on.

For our first two projects, we wanted to get folks accustomed to our methodologies. We picked a project we were virtually certain our in-house team would win on - filling potholes, right? It doesn't pass the yellow pages test, right? Nobody does it except us. We do more than anybody. We are a lot better now, but even when we started, we were pretty good at it.

We then took something that we were virtually certain we were just going to get killed at, and that was microfilming and archiving. We got creamed at that, right? Forget fully loaded costs, our employee costs alone were 200 percent above all of the private sector proposals that we got for that service.

We implemented both of those projects and got private and public partners committed to that methodology. You can't agree with the methodology here and object to it there. I'm not sure if we were lucky or smart in getting that done, but that was important in retrospect.

We then began working our way down that list. Things that really didn't meet the yellow pages test. We started relatively small, asking ourselves where can we apply technology? Things like the wastewater treatment plant at the airport were not done early on. They don't pass the yellow pages test. There aren't a lot of folks doing that out there.

So you really focus on those differently than you do on the print shop; right? There's a whole different process there.

In some circumstances we had employees nominate ideas. Perhaps my second strangest moment in city government was when I was asked to partner with a private provider to take sewer maintenance private. Steve, would you want to describe that?

MR. QUICK: We started in 1995. The city wanted to privatize the collection system. Well, as a union, we were frustrated because the middle management would give you a job assignment that lasted for two hours and pay us eight. We knew that wasn't

efficient, so we went and negotiated with the private sector and we put forth a bid against the city's contract, and we won.

MR. STITT: So you have kind of those bizarre moments where things like that happen. There are other times when an employee group said, "Skip, we're not ready today." And I said, "Well, when will you be ready?" They said, you know, 10 years; I said six months; they said two years; I said one year; they agreed. And we gave them a year. Then we provided them with the outside consulting expertise, which they picked in order to get themselves ready.

They also came to us and said you've got to pick HR, legal, and finance because we can't compete if we're being overcharged for all of those support services.

Then there were some areas that we just didn't agree on, and then we competed them. I mean, that was the end outcome.

PANEL MEMBER HARNAGE: Well, I was really impressed with your presentation. Some people say that federal employees are not qualified to do this. However, those that say that, really are not distinguishing between managers and the work force. None of them do that until you have this type of experience. I was glad to see that you recognized that, and were both trained to be more effective in this process. I think that was a major step toward your success.

I too am impressed with what you have done here in the city. The only difference between you and I is you had a great mayor that was willing to work with you; roll up his sleeves regardless of what his advisors or some constituency may have been telling him. We have a few bureaucrats in the federal system that may listen to us.

(Laughter)

CHAIRMAN WALKER: I've got one question for you, and I have to say I'm very impressed with both of what you had to say. When

I boil all this down, it really seems to me there are several different elements we are talking about.

Of course first you have to decide what are you in business to do; right? In other words, what's core or fundamental?

Secondly, how should you go about doing it? Which business process would you even enter into? In many cases you have good people but they're trapped in bad processes with poor leaders, and maybe too much management and not enough people doing the work.

Thirdly, once you have decided what and how, then you've got the question of who ought to do it. Should it be done by government workers; should it be done by the private sector; should it be done through some kind of combination thereof?

My question is: What about the relevant order of that process? To what extent is it imperative for you to focus first on defining what businesses we should be in; or what mission are we trying to accomplish? This, versus determining how and who will perform this mission -- which is the business process reengineering.

To be effective, what about the relationship of the order?

MR. STITT: I think ideally you would approach those in the order you have described. Quite frankly, we didn't realize we had a methodology to this until we had been in it six years and looked back.

(Laughter)

PANEL MEMBER TOBIAS: Hindsight is 20/20.

MR. STITT: ...And put it in order, right? Then it looks like a methodology. I guess my only concern is to not think too much about that. In my experience, the best way to learn is by doing. We could have had seminars forever about activity based costing but nothing brought a clarity of focus and a seriousness like the first request for proposal, right?

So you have got to be willing to fix your system. You have got to be willing to tweak it as you go along. We look to perform efforts not only around the country but also around the world. Our experience is that people that get bogged down right at the start with writing rules and standards that will apply forever never actually get started.

So, I think you need to balance practical applications with developing a body of rules and strategies. That means that if you get caught short somewhere, you got to mitigate the risk and harm for your company. That's just part of it.

We could have saved a little bit more money on our wastewater treatment operation if we had just fired all the employees. It would have been very easy. I could have called somebody in HR and done it. It would have made the next transactions very difficult.

So, I just think you need to keep that in mind here, and you can't build a broad experience of trust without occasionally working through some of those issues.

MR. QUICK: You have got to remember we were against privatization but not competition. We have pride in the work that we do and the city is cleaner. So when it came to pothole patching and cracking, we knew we were good at it. That's what we wanted to compete. Our attitude was "let's go."

CHAIRMAN WALKER: Well, thank you both very much. It's been very enlightening. Thank you.

MR. QUICK: Tell Steve Goldsmith to call me.

(Laughter and applause)

CHAIRMAN WALKER: In fact he's here. He's in the rear. Steve, we saved your spot. You missed all the praise.

Let me say to the County of San Diego and the City of Monterey, again, thank you very much for being willing to stay. We're running over but we want to make sure that we get a chance to hear from everybody.

Panel 4: Municipalities - County of San Diego and the City of Monterey Case Studies; Panelists: Tom Boardman, Chief Technology Officer, City of San Diego and Fred Meurer, City Manager, Monterey

CHAIRMAN WALKER: And what I would suggest for the panel, if you need to take a break, take a break. Let's keep on moving.

All right. Let's go ahead and get started. Tom, are you first?

MR. BOARDMAN: Thank you very much.

CHAIRMAN WALKER: Please proceed.

MR. BOARDMAN: I'm grateful to be here. I'm very proud of what's going on in San Diego with information technology and love to talk about it. But I do have sort of a bone to pick with the person that scheduled this. Putting us on after Steve and Skip is a very difficult act to follow. There are actually some similarities that will be obvious.

What I would like to do is to talk briefly about San Diego County demographics, and then a little bit of detail about the reason for this decision to outsource our information technology. When I'm going to skip right to conclusions and what we have learned so that we have an opportunity to answer questions rather than going through this. I did include in the packet a lot of supporting material with specific emphasis on staff retention, which is a serious issue. Finally, I'll provide lots of facts about our 18-month experience with privatizing IT. We can talk about that if you have questions but otherwise it's in the packets.

San Diego County, suffice it to say, is big. We're bigger than several states. We're bigger than all the counties, and that has its unique challenges with respect to the need for quality of IT support.

The reason that we got into outsourcing had nothing to do with technology per se. It was to allow us to meet the objective of our Board of Supervisors which is better, faster, cheaper government.

We have the benefit in most cases of having a single elected body, and they are elected by charter; not partisan. So that we don't have the typical fight between the house and the senate and executive and legislative branches or Democrats and Republicans, which is a benefit. In addition, these supervisors have all been together for at least six years. They have a common vision of what they want to see with the county, better, faster, cheaper county government.

To IT what that means is every possible service "on-line" instead of "in-line." That's the objective. And that had been their objective for five or six years before we got into this, but the IT organization had basically done nothing to get there.

We are now in a position where at the end of three years we will accomplish that because of outsourcing. On-line service is available to all residents. The real issue about "digital live," and part of the contract has a nonprofit organization which is funded by the vendors which is set up to deal with the digital live issues.

World-class IT for all departments. We have "Have" Departments and "Have Not" Departments. Departments with money had lots of things; equipment whether they needed it or not; departments without money like Probation and Public Defender simply had no IT at all. The idea was to get everybody on the same level of service.

Essentially in what you're going to do is accomplish the last point here, which is the No Wrong Door. If you're a county resident and you go anywhere in the county, you ought to be able

to either get your services met or be referred. Not just told we don't do it here; find the other location that might do it.

So why do we outsource? It's kind of an interesting process. The county was basically bankrupt in 1995. You may recall Orange County, which is our neighbor to the north, actually went bankrupt. Some people say we were a quarter away, others say it was a clever chief financial officer away from being bankrupted.

But as a result the board brought in a new chief administrative officer, executive from TRW, with a clear charter to stay here two or three years and fix it. Whatever that means, fix it.

And the approach we took was to match competition with consulting. 'm glad you're here, Mayor. Mayor Goldsmith was involved heavily in getting us going with managed competition, back in the days, before it was clearly the in thing to do. He basically helped us structure a managed competition program.

We had 20 competitions over two years. The vast majority of those were won internally for many of the reasons you've heard about in the last presentation. Indianapolis realized 42 million dollars in savings.

But a very interesting thing happened. After the low hanging fruit, we got down to the really serious issues where competition with the private sector was tough. The county employees under managed competition were coming to us and saying we can't compete; this isn't fair because we don't have the IT support that the private sector companies have.

Skip and Steve mentioned that their IT was 20 years behind the times. We took another step and said let's fix it. Really, that was the decision. We couldn't attract and retain IT people, and we didn't have the money to invest. In order to provide the world-class service, and provide the technical support to further

enable the managed competitions to the business, we estimated it would take a quarter of a billion dollars investment.

The result was a 644 million dollar seven year contract with CSC and partners, to basically take over the county's entire IT organization. There are a couple of application areas that DH share and elected officials come to fight with that are still doing their own, but basically IT is outsourced.

The county charter requires that we prove the cost is less, independent of quality of service, than any activity that we privatize. So, the absolute dollars have to be less.

We had a team of 30 people, including auditors from Price-Waterhouse in parallel with the outsourcing contract negotiations and review process, determining the cost of meeting the service levels of defining ERP internally. They estimated savings of 87 million dollars or 15 percent. So, less money to provide dramatically better services. It is not the case that if you get better it has to cost more.

Included in this was the vendor, CSC, who agreed to invest 180 million dollars in completely redoing our infrastructure. Everybody gets a new PC, phone, voice mail, and e-mail. Furthermore, we received new integrated case management systems, part of, which gives us the ability to move every service we possibly can out to the web. So that's what we signed up for.

In addition, the contract includes replacing all hardware and software, not just once, but refreshing it every three years.

As part of this process we now have formal plans with each department to replace their internal and external automation. This helps get out of the issue that Steve mentioned -- that we don't have IT necessary to support their jobs.

So let me skip to conclusions. First of all, IT outsourcing has exceeded our expectations. I spent 20 years as a CIO in various industries and companies. I have never been in a position

as good as the one I'm am in now. Always before the CIO role tended to move a small number of resources to the squeakiest wheel, and apologize to everybody else for not providing services.

I'm now literally in a position where I'm apologizing to CSC because we don't have enough business people to provide direction for all of the internal and external applications that they have people ready to do. It's a very nice position to be in.

Service to employees and residents has increased beyond anything we ever could have done with any amount of money. We simply could not have attracted and retained the people that CSC was able to bring to the table.

Costs are lower because we buy results not effort. The contract is set up where we are buying things on a price point basis. For example, a PC costs "x" dollars a month, it includes all support. So the focus is all end user result, not how many people working.

One of the issues of having employees do things is the only thing you can buy for employees is effort. In fact, in some instances you're buying attendance, not effort. It's a management problem, but with a vendor you can buy a result, which we're doing.

Virtually all staff outsourced and retained are better off now. We had about 355 IT people. All of them were offered jobs with the vendor as part of the contract. They received two years employment in San Diego County with a 14 percent retention bonus. They also got a seven percent base salary increase and four months after the contract they all had the opportunity to have a non-prorated merit evaluation. The increases were between five and 30 percent on top of the seven- percent base salary increase.

They are now part of a company that does technology for a living instead of a cost center as part of the government. They

now have opportunities worldwide. This was substantially a better deal for virtually every employee.

I of course get racked with the transition of employees on a regular basis. There's a small group of people who do not feel they're better off, and quite frankly they're the people who had retired but were going to work until they were sixty-five. They just don't want to work in the private sector.

I want to say something else about staff that I think is really critical. Not only are the outsourced staff better off, but probably more importantly in the long-term, the 17,000 county employees that depend on IT to do their jobs and serve their customers and do what their bosses want can now move up in the organization. Now they have an IT infrastructure available to them which they never had before.

I think it's very important to not lose sight of the fact that the real customer of IT is far larger than the number of employees.

The long-term contract has permitted us to get external investment, which we never could have justified before. Basically, eight million dollars, which is being invested in the first three years, will benefit us during the entire seven year life of the contract.

As I mentioned earlier, one of the reasons that the economics work, that this is less expensive, is that it costs less money to maintain new hardware and software. This is important in an organization like ours where we have 900 locations spread over 4600 square miles. It's very difficult to maintain high service levels with all the equipment.

Another point, if you think about the evolution of technology, there have really been four major changes. One from manual to batch, from batch to time sharing, from time sharing to personal computers, from personal computers to the internet.

The previous transitions before the Internet have really only impacted the support -- the way that government employees do their jobs. However, the government employee was still the interface out to consumers in most cases. With the Internet that's completely different, particularly with our vision of every possible service on line.

The direct connection is between IT and our taxpayers, our residents, and therefore you don't have a buffer. You don't have a buffer with the 72,000 county employees and therefore the demands on information technology are far greater now than they ever have been. This is another reason why we felt we had to go outside to a company that does this for a living.

Finally, this input to you as part of this process, we didn't have to go through the federal government policies because we are a county. However, I think the benefits that we have seen are absolutely repeatable, and I would encourage you to do what you can to change the regulations to make it easier in government.

At this point I'm going to stop. There are a number of slides that talk about the details of about what's happened over the last few years, but I want to turn this over to Fred Meurer.

CHAIRMAN WALKER: Thank you very much. Fred, if you could go next and then we'll open it up for questions for both of them.

MR. MEURER: Good afternoon Mr. Chairman and Panel. Thank you for the opportunity to speak here.

I would like to tell you a story about a small town and our approach to the burning platform for the motivation. We're a town of 30,000 people. We have a great location, and we have a partnership with our military community that goes back to our founding because military has been part of the Monterey family since 1770 when we were founded. So, it's a long history and our community longs to keep it.

Our motivator was BRAC 91. We lost Fort Ord adjacent to the City of Monterey; 35,000 people left; 28,000 acres; 42 square miles; 10 percent of the county's population disappeared when that installation closed in '91.

In '93 the Defense Language Institute in the heart of our city was on the closure list. It came very close to closing, as we understand it. The Naval Postgraduate School, our third military installation, was also on the closure list.

When we looked at the analysis that the military gave on why they were closing DLI, we immediately saw that there probably were some good reasons for closing DLI from the base ops point of view. Not from a vision point of view, but a base ops point of view, unless something was dramatically changed.

We got lucky. We convinced the commission that we were right, so we were one of those few installations that got off the list in '93.

Then we read the commission report said very clearly, Army and Navy, you need to cooperate; you need to get purple, and if you can't get purple effectively, work with the City of Monterey to lower your operating costs.

So that's what brought us to this. We see a lot things haven't changed since '93 to '95. To be truthful the effort of making the Army and the Navy more purple, failed. So we stepped in. We said, we have this law here, and we told them what it could do. We said, commanders, we are willing to help if you allow us to help. Your budget is not getting any better; you still don't have enough money to do your core competency, much less your non-core competency. These are all of the issues that almost every public agency faces today.

So what we said to them is, we are very good at operating a city. We do some stuff in-house and we do some stuff out of house. From our perspective, your base ops are nothing more than

a city within a city. The Army actually had a saying not too long ago, communities within communities.

So we kept asking ourselves and asking them why still optimize on your little tiny neighborhood when you can be a part of a city and take advantage of all the opportunities.

It was a great idea but it wasn't being done. To me it wasn't going to be done very easily. We found lots of rules and lots of folklore that said we couldn't do what we wanted to do, which was essentially an interservice support agreement. Army and Navy can do those all the time. I was talking about an intergovernmental support agreement that would allow the ops to be in a position of subsidizing the federal government.

The city has a mission to ensure that the military missions in the City of Monterey are as cost-effective as they can possibly be. And the missions are as effective as they can be, short of subsidizing the Department of Defense because their budget is a lot bigger than ours is.

We knew this was a new kind of jointness. If the Army and Navy couldn't get purple, we would get purple with each of them individually. If necessary, we would try to merge them through us as a catalyst. There were barriers as I mentioned. The park can be a barrier or it can be a tool. Title 10 says you can't contract out police and fire. So in Monterey we have about a 200-acre installation with a dedicated Navy fire service. A very, very, very professional fire service. But if that installation were to close tomorrow, I could tell you I couldn't afford to put a two-engine company into that hundred plus acres. I just could not afford to do that.

So we had the Title 10 approach - the A-76 process. If IBM needed two to four years to figure out what they needed to outsource, given their core competency, they would go broke. My argument was, you don't need all of that process to decide what

should be done in-house and what should be done out of house. So let's cut to the chase and deal with that quickly.

Traditionally, every military commander wants total control of everything that affects the mission. That's just the nature of the military. But they can no longer afford it.

The other issue is local command structure, which is normally made up of combat veterans or folks who are prepared for combat. They are given incredible authority in combat, but you bring them back and make them installation commanders, and people seem to think they've had a lobotomy enroute and they are no longer decent commanders and leaders. That is not the case. You just saw it this morning, the private sector does not have a lock on creating leadership and management. They do not have a lock on quality work force. So there are no cookie cutters, you know.

Allow the local commanders to exercise the discretion you would expect your business center leaders and managers to do in the private sector.

I thought we had the authority per the base closure law to do what I wanted to do. However, we had a whole lot of contracting officers and attorneys that gave us all the reasons we couldn't do what we wanted to do, both on my side and their side. So we said okay, let's make new law.

So we were able to get a demonstration project authorized in the '94 Military Authorization Bill that essentially said go to a government support agreement if you would like to do this. This was an authority, not a requirement.

And then we said we're available. It took from '94 to '98 to do the first deal because of all the other obstacles and traditions.

We also had to deal with A-76. We thought that it was waived. But we had to go back to Senators Nunn and Boxer to get a code reading to make it clear for this particular demonstration,

the A-76 process was waived. We didn't want to wait until the base closed, which in our mind was '95, to start making these good business decisions.

This authority, because it did take so long to get the process moving, has been extended through the end of January of '02. We came up with a new service policy. We joined forces with the City of Seaside because the Army and Navy activities are a part of the City of Monterey and a part of the City of Seaside. We created a joint powers agency that said we'll do the work. Whoever can best do the work gets the work. If it's the City of Seaside, they do it. If it's the City of Monterey, but Monterey is a better work provider, we'll do it. Or if a contractor is better, the JPA contracts for the work, and then it goes across the jurisdictional lines.

We generally used a marginal cost model. Going through the recession, I told my folks "get efficient and I promise you I will not lay you off." I will sell your capacity to others. That's exactly what I did. I have other city customers as well as military customers.

This slide is only part of the story. I actually made the slide to highlight the amount of the dollars earned that went to small business subcontractors. So there's another \$800,000 earned that goes to large business subcontractors. So you can see we did some in-house; we do an awful lot out of house.

The Army Audit Agency came and looked at it after our second year of operation. "Our first year of operation," the commander said, "you saved us about a million and a half dollars." I said, "well, that's great folklore. I want an audit. I want to know specifically because we've got to report back to Congress whether the demonstration worked or not, because I'm assuming if it works, other commanders might get this authority some day."

The Army Audit Agency came in and they looked at what we did, and they said that we did the same work that was being done by the government work force, augmented by private contractors, at 41 percent less cost.

They also said the quality was better. We have a very happy customer.

If in fact you had included the fire protection service that we provide to the City of Monterey with our work force, because it predates the Title 10 prohibition on contracting out fire and security, we would have saved another hunk of money that would have pushed it up to about 50 percent savings. I charge the City of Monterey their fair share of my overall fire cost based upon cost. So if I had to put a two engine company there, or the 4th Army had to put a two engine company on that 400 acre installation, that would be about 1.7 million dollars with the current wage scale. So you can see the savings that are obtained there.

Overall, we're hitting about 50 percent. You're not going to get 50 percent everywhere. I know that. But if you got five percent or if you got 10 percent you start talking substantial dollars that could be put into a reinvestment, into the facilities, our facilities that your soldiers are currently living and working in. And if you've been out there recently you would know they are horrible. We should be embarrassed that we ask our service members to work and live in the environment they currently work and live in.

So we need to take those resources and use them. They may need more resources, but before we ask for a huge amount of resources, we better wisely invest the resources that we are being given.

Just in Monterey there's great potential. Whether we will go that way or not, again, there are tools available to us. For

instance, food service. The city is not in the food service business, but the Marriott is in the food service business and they do my food service. I run our conference operation in Monterey, but I subcontract food service to Marriott.

I could just as easily be providing Marriott food services at the mess halls if the military wants it. It's their call.

We think that what we have provided is superior customer focus. We have a very high level of expectation on the part of our work force to provide first class service to the people that live in Monterey and the people who visit in Monterey. Our economy is based on those people who visit Monterey, wanting to come back time and time and time again. So we want to have good quality services.

We also believe that we have to run our own business like a business. That we have to worry about activity based costing because we are a cost base contract, not a firm fixed price, I don't have to worry about putting something in my bids for profit; I don't have to worry about putting something in my bid for risk. But I darn well better have a highly visible and highly usable cost accounting system so I can be audited, and more importantly so I can bill. If I can't prove my expenses, I can't send my bills. So I look at myself as a private contractor as I do that.

Finally, it seems to me that we ought to institutionalize this capability. Not every community will have the capability that we do. Not every installation will have the needs that our installations have, but we ought to add this as a tool, because the commander, as the CEO of that installation is free to use it and it makes sense to use in their particular environment.

Probably the best way to do this is to go through legislation, but do an intergovernmental support agreement that allows you full cost recovery as opposed to the current inter-

service support agreements and intergovernmental agreements that only allow you to recover direct costs.

It took an act of Congress to create what we think is a very common sense approach to intergovernmental cooperation. We need another act of Congress to broaden this authority to other installations.

In the efficient facilities initiative that was just released by the Department of Defense, there was a proposal almost exactly like this, although it actually incorporated the other part of our initiative. I'm only talking about our contract initiatives with the Army. I also control about 20 percent of the real estate that the Army owns, and use it as a joint activity area, recreational area primarily, but also childcare; historic park; ball fields and so on.

We think this will better position our community and our military activities in the next BRAC, whenever that is. But it makes sense to do, whether it's BRAC or not. We have also saved money because of the competition. We have saved money because of the economy. We have saved money because of our new found business life approach of serving our customer - the U.S. Department of Defense. We're not BRAC proof though. But we are BRAC prepared, because if there is a BRAC and we are closed I won't be like Fort Ord is today: Ten years after the closure, millions of square feet of buildings are still boarded up; they're still looking for the keys; the switches; the valves. The place is falling apart. The asset is literally decaying before our eyes.

I already have the keys here in my key box. I'm already maintaining them. I already control part of the real estate. I will be much better situated and will more rapidly recover, and in fact we have recovered. In the meantime, we are looking for a combination of real estate relationships that allow us to provide

services, as well as contract relationships that allow us to provide services.

The new base closure legislation provides authority if in fact it's going to be passed. The regulations are this thick (indicating). When we first took over, the contracting officer said, "I need you to go get ID cards." I said, "Why on earth do you need us to stand in line for an hour and a half to get ID cards?" Well, it doesn't take an hour and a half anymore, but there was still a lot of standing in line. She wanted everybody that might work on the contract to have an ID. I said, "Okay, here's the cost. Base Commander, do you want to spend this money duplicating the city ID cards, or do you want to spend this money fixing streets, paving streets, fixing roads?" And of course he made the wise decision to put it in a product that's going to better serve the soldiers.

So we need to get rid of some of the regulatory overhead, and we have continued to present in forums like this to try and infect others with the opportunity that we realized in Monterey.

That's the end of my presentation. Any questions?

CHAIRMAN WALKER: Thank you very much. Let's open it up for the Panel members. Frank?

PANEL MEMBER CAMM: Tom, you talked about the fact that it was very difficult to provide the IT services inside the county itself and you had to turn to an external source for that.

What capability did you need inside the county to run the competition and to oversee the contract once it was in place?

What knowledge of IT, what skills did you need in-house to oversee that source of services?

MR. BOARDMAN: We kept the top two layers of the IT industry, so, my position, Chief Technology Officer and what would have been my direct report cycle in the higher organization and below that.

So there's someone responsible for structures, someone responsible for security and application architect, those positions.

Actually the oversight has three components: They are three contract managers that just worry about are the services goals met, and paying the billings and so on. Seven technology managers, and then I have the equivalent of a CIO responsible for each of our major indices: public safety; the courts; community services and so on. They provide the business direction, so we can pretty much say it's CSC surrounded. That's the answer to the second part of your question.

The first part of the question, we didn't have anybody who had experience in outsourcing anything, let alone information technology. We just went to Gardner Group and got consultants.

PANEL MEMBER CAMM: So you hired third party consultants to help in service this?

MR. BOARDMAN: IRP processed the service levels, the due diligence process, and evaluation process.

Our people were of course in the middle of it.

PANEL MEMBER CAMM: They helped you write the performance agreement then?

MR. BOARDMAN: Right. And then we got help from a law firm to assist us with the contracting. I would strongly suggest that. The vendors do this for a living and, at the extreme you do it once every seven or 10 years as the customers go. So I definitely suggest going outside.

PANEL MEMBER CAMM: For the people who would keep it in-house for this contract, how many people would you say you had in-house to oversee this thing?

MR. BOARDMAN: Well, that's the group I was talking about.

PANEL MEMBER CAMM: But is it literally 10 people?

MR. BOARDMAN: Three contract managers, seven technology managers, and then six CIO's.

PANEL MEMBER CAMM: And there's no staff attached to them?

MR. BOARDMAN: Well, a few of the CIO's being in their own departments have assistants, so we are up to twenty, twenty-one.

PANEL MEMBER CAMM: So it is a small group?

MR. BOARDMAN: Yeah.

PANEL MEMBER CAMM: Do you need any IT activity inside the county government to grow the schools required for those people?

How do you get the people with those skills? Where do they come from?

MR. BOARDMAN: Good point. Literally every one of them including me was hired just after the selection was made to CSC. brought in an entire team on the technology manager and contract manager's side.

All but two of the business CIO's were at the county before. We set up classification management positions and higher pay scales as incentives for attracting those folks. was able to recruit those folks to this new and big and exciting opportunity.

PANEL MEMBER CAMM: So they were trained elsewhere and brought in laterally to do this work, and it sounds like they had exemptions from the county pay scales and so forth for you to attract them with their capabilities?

MR. BOARDMAN: Well, I still have to deal with our executive board and all that, but they were unclassified management decisions.

PANEL MEMBER CAMM: Was that hard to do or were you satisfied with the way that worked?

MR. BOARDMAN: It took almost a year for me to hire the right team of people. It just costs so much to hire the wrong one and deal with it, particularly when it's a small group of people that have to work together. However, I'm very pleased with the team now.

CHAIRMAN WALKER: Stan and then Steve.

PANEL MEMBER SOLOWAY: One question for each of you if I could.

Tom, you used a figure in your presentation of 87 million dollars in savings, and you said that technology refreshment was a big issue. Sometimes we forget this need five, eight, ten years down the road. However, this was included in your pricing.

when you said you had 87 million dollars in savings, was that off the base line? Do you have any sense of what additional savings in cost avoidance that technology refreshment was, or is that included in the 87 million?

MR. BOARDMAN: From looking just at IT, it's all included. When we did the RFP, we didn't find a whole bunch of stuff in the refreshment in three years. Then we gave that RFP both to our external vendors to bid, and to our team of 30 internal people to cost.

So the cost to refresh was included in the county bid and therefore is also included in the 87 million dollars. Of course, that 87 million doesn't include anything with respect to savings in business units for having better authorization. We're prohibited by charter from including any derivative savings.

PANEL MEMBER CAMM: That's a different issue.

MR. BOARDMAN: Yes, a different issue.

PANEL MEMBER CAMM: Fred, I appreciate your presentation of what you are doing there in Monterey. When you were working in the model, the numbers looked like about 50 percent of the work you're talking about is contracted by Monterey or Seaside or JPA or whatever.

MR. MEURER: Right.

PANEL MEMBER CAMM: In the agreement you have, or the kind of agreements you would like to see built, do you in any way guarantee your partners or customers, or whoever it might be, some degree of competition being brought to bear to ensure that the

services that the department is to get, are being delivered at that optimal level policy?

In other words, if the city isn't big enough or not terribly efficient in competing that work, how is that factored into your agreement?

MR. MEURER: It's not a requirement of the agreement. I think it's an expectation that I'm going to have to drive costs down and quality up. But I pick and choose. Trash is done by contract. Water is done by contract. Pothole patching is done in-house. Building maintenance is done in-house. So if a toilet stops up in a barracks, I've got 24/7 service. I have somebody respond and unplug that toilet. Because I found I could do it cheaper contracting it out. So we pick and choose.

I have also brought some things back in that I had out of house. I brought the custodial back in because I got tired of firing these contractors. They fired their heating and ventilating contractor and asked me to take it on as an interim. We are so happy with the service that we hired three of the old contractor's people. In turn, they were happy with our service so they said we just want to keep going; we're not going to recompute that as a separate contract.

According to our authority right now, the Army had to do something, so they got the necessary waivers to allow us to bid on the contracts whereby we went head to head with folks like Johnson Control. I don't know if Johnson Control was a bidder or not, but it was probably about a four million dollar contract. We're awaiting the results of that competition right now.

CHAIRMAN WALKER: Steve.

PANEL MEMBER GOLDSMITH: I will give my official apology for being late.

I have three current observations. One, it's really remarkable that Monterey would send people to come to Indianapolis.

(Laughter)

MR. MEURER: Terrific thing.

PANEL MEMBER GOLDSMITH: Two quick observations. One, I think that this case is about your needing outside help to help you configure the RFP. San Diego County has long had a reputation of one of the very best managed counties in the country. However, even so it doesn't have the requisite in-house capabilities to manage that process. So I think that exchange was very important.

I'm also pleased to hear your presentation. I suffered two base closure losses in my early years. It's nice to see that it got another victim.

(Laughter)

Let me use your testimony to make a point to show why I'm here.

PANEL MEMBER O'KEEFE: I think I know why you're here.

PANEL MEMBER GOLDSMITH: It's not very admirable but it's an indirect way of getting the audience to better view these matters.

What your testimony raises is something that concerns the base closure process, which is that it's a real estate serving model that directs this bunch of things on this piece of real estate should be over here. Instead, it's the leveraging of the base closure along with the A-76 process that produces some real savings, because it provides the incentive to do the creative things that you did in Monterey. It's the pressure of the closure that gives the impetus for your effort, even if it didn't result in a closure of the whole base.

In the last two base closure sessions you couldn't outsource heating and cooling or insulation or custodial. You couldn't pick it out of the base closure process.

I think the way you merged or mixed those together is a very important point. Maybe not just for this Panel but for other groups.

MR. MEURER: Even if we have another base closure round, I hope the outcome is not zero excess capacity, because we can't figure out what's going to happen day after tomorrow. We're going to need some sort of excess capacity for our military capability. It shouldn't set idle.

It should not be treated the way the military has historically treated excess capacity, as a liability. It needs to be put to work as an asset to underwrite the cost of the mission.

We fought long and hard to keep part of the Presidio open back during the Reagan administration when they wanted to sell the land for redevelopment as part of the Property Review Board process. Our argument, and I was wearing a uniform then was, hey, we may need this land some day; let's find another way to put it to work for the mission. That was the source of your initial briefing to the City of Monterey to keep it operable.

The Postgraduate School right now has empty seats. We need to find a way, working with the city, university or whatever, to fill those seats. We could put folks from Lockheed Martin in those seats as mid-managers getting their degrees, to make sure you don't lose that human capacity in a very, very unique curriculum that is offered at the Postgraduate School.

We can do that as partners, whether it be city, industry, government, partnerships. But you need to allow the creativity in the local area to become involved with the project.

CHAIRMAN WALKER: Frank.

PANEL MEMBER CAMM: You mentioned that part of building the business case with the Army, the City of Monterey requested the Army Audit Agency to audit your cost and performance. What was

that like? Was it easy to do business with them? Were your cost accounts similar enough so there was no problem there or what?

MR. MEURER: We had no problem with the auditors. The auditors, as I understand it, and I know your staff wrote a report and found no problem with our data. Because we are cost based, we have very robust software that is data hungry. It has to be if you are going to get the information you need to build support for these partnerships. So, we had the records. The difficulty I believe the auditors had was figuring out how much the Army had spent and who had received the money.

The actual costs and details were a little harder to figure. They had to analyze it at a much more macro level given the lack of cost accounting capability with the Army figures.

PANEL MEMBER CAMM: So you were using standard cost software to keep track of your costs so they could go in and get that data quickly?

MR. MEURER: It's a standard off-the-shelf municipal work management system configured to help with GASB 34. So, if you call in a work order, I can tell you that you called it in; who repaired it; what equipment they used; what consumables; what vehicle they were in and when it was repaired, because you get billed for all that stuff. As a matter of fact, the auditors actually called them to see if that was really true, and it was true.

PANEL MEMBER CAMM: When you talk about this being a small city or a little community, presumably they could use exactly the same software if they wanted to.

MR. MEURER: Absolutely.

PANEL MEMBER CAMM: Is there anything unusual about the software that you can remember?

MR. MEURER: It's a standard off-the-shelf software package.

PANEL MEMBER CAMM: The Army just doesn't collect the data?

MR. MEURER: I mean, it's just their unwillingness to invest in the data collection.

PANEL MEMBER CAMM: So it's a problem with the data, not the system.

MR. MEURER: Yes.

CHAIRMAN WALKER: We can speak for months about the problems with the financial management at DOD. That's a different topic.

Any other questions for this panel? Thank you very much. You've been very helpful. We appreciate you waiting this afternoon.

. . . Applause.

Panel 5: Performance Management, Bid-to-Goal, Transitional Benefit Corporations, and Employee Stock Ownership Plans, Privatization Panelists: John Williams, Managing Director and Senior Vice President, HDR, Inc.; John Meason, New Mexico Technical University; Roger Neece, President, ESOP Advisors, Inc.

CHAIRMAN WALKER: Thank you very much. Let me again apologize for our delay and express our appreciation to your willingness to stick with us here. We are interested in what you have to say. Mr. Williams, you are first

MR. WILLIAMS: Mr. Walker, with your permission I would like to speak from the floor. I'm so enthusiastic about what I'm going to talk about I can't sit down to describe it if that's okay with you.

CHAIRMAN WALKER: That's fine.

MR. WILLIAMS: I appreciate the opportunity to speak to the Panel today and be invited to talk about a process called Bid-to-Goal as a possible alternative to A-76. I would also like to introduce with me today is one of my partners, Matt Ryan, an eight year GAO employee himself, as our National Director of Competitive Outcome Management for the public sector. I'm the Senior Vice

President of HDR's consulting group. We're based in Omaha, Nebraska and have 40 offices nationwide; about 3100 employees.

I have a written statement on leaf fifteen in your book. I also have a hardcopy of the power point presentation, which is what I'm going to speak from.

I would like to tell you very briefly about our background. HDR has been a pioneer in privatization or public/private ventures since the mid '70's. We successfully represented community interests in the development of about 20 billion dollars worth of service agreements and have a little experience in privatization. Since 1996, we have worked with about 200 different communities to help their employees mirror the best techniques of both the public and private sectors. So, we have an understanding of what it takes for government employees to get competitive. We have learned several lessons along the way, which I would like to share with you. They shouldn't be a surprise. The first one is, if it sounds too good to be true, what is it?

PANEL MEMBER HARNAGE: It probably is.

MR. WILLIAMS: Yeah, it's too good to be true. That's lesson number one. Lesson number two is that there's very little that a private entity can do that a well led and empowered public entity cannot do. We have heard several examples today. Monterey was a very good one; Indianapolis was absolutely clear, without the quality leadership and empowerment of the work force, I don't believe you would have had that tremendous success story. We can thank Mayor Goldsmith for that.

The same thing is true for a private company. Any good or solid private company that has a strong leadership and faith in their employees, will allow them to do the very best job they can. Another lesson we learned is that bureaucracies exist everywhere. We just don't admit it in the private sector; right? I have a business card that has a mission statement printed on the back of

it. I remember one day my boss found out that I had made a decision to print the mission statement on the back of the business card for people in the division that I run. I'm actually the number one stockholder in the company, but I was asked to explain why I printed a mission statement on the back of our cards. It took me 11 hours to finish those explanations. Eleven hours. And guess what, it's on here; still on here today.

So, we have our own challenges in the private sector. The key really is an openness and willingness to empower your people. Let's go on to the first slide here. We also have experience in A-76. The most recent example is the Naval Public Work Center in Pensacola, Florida. I won't take you through the details, but I will tell you that we are two and a half years into the process and still no decision. Fifteen amendments to the PWS and still no decision.

For a group of people that all agree that our human capital is so important, the one thing I can say about A-76 is it's shameful in terms of the impact it's had on the morale in Pensacola. Absolutely shameful. There have been frequent schedule slippages; the process is not user friendly; and the morale has absolutely dropped through the floor. However, we are not here to criticize A-76, instead we offer suggestions on possible alternatives that could perhaps help this situation.

You have heard a lot of excellent case studies so far today, and I have learned a lot from it, but I want to share with you an actual process that's being used at a number of locations. Bid-to-goal from what I've read lately is a process that's highly misunderstood. I think one of the great things about being able to testify before the Panel today is we get to go on the record and explain what bid-to-goal is.

Bid-to-goal is a highly competitive process. It's just different from what you have done up to this point. It involves

eight steps to ten steps, depending on the circumstances. It's a very flexible process.

The first thing you have to do is determine what you're going to study, so it all starts with focus. Step No. 1: determine what you're going to study. Step No. 2: determine the scope and level of service to be provided by that unit. It's amazing to me that one of the big problems I see across the board in public service is public employees don't know what their scope of service is. If I ask a public employee to tell me what your scope is, there's always a deafening silence. It's because in public service, the culture has always been about service, and you do whatever it takes to keep the councilman, mayor, congressman, senator, or president happy. Okay. Well, no wonder they're in a disadvantage sometimes. There's really no limit in their mind as to what their job is.

Step No. 2 is to make sure they understand what their scope is; what their level of service is; and what it is they are to provide. Step No. 3 is to determine the current cost of those services. You know, I'm always baffled when I ask public employees, "What is your scope of service?" And, you know, silence. Then I say, "What does it cost?" And they always tell me what the budget was. Well, we know that's not the same as cost. So, before we spring off on a competitive journey, we have to know where we're starting so we can plan our way to our destination.

Step No. 4. Once you know what your service is and what it's costing you today, we must determine the likely cost if the service were provided by a private entity. Under a normal privatized basis, I can show you many, many examples of privatization or public/private ventures, where the original contract was bid, but the extensions were negotiated, especially with longer terms. I know on your work, Mayor, it was extended

at the beginning of negotiation. There are a lot of good reasons for that. But under normal circumstances the vendor is looking for a reasonable profit and the vendor wants to cover their risk. In our assumptions we include what the target performance level should be in terms of cost. This is a negotiated deal with a private sector.

Step No. 5 establishes a competitive goal for future operating costs of that unit. We have to go beyond just the cost and determine level of service; regulatory compliance; safety; customer service; and how we are going to treat our employees. All of those performance indicators need to be worked into the process. So it goes far beyond cost.

Step No. 6, Now we know where we need to be in order to provide a competitive outcome but how will we get there? That's where you basically go through a reengineering process. This is where the public employees come together and say all right we understand the challenge and we know where we have to end up in order to be successful. How will we do it? We draft a detailed strategy paper. We not only state how we are going to do it, but we state how it relates to time, money, other performance indicators; how we will be evaluated; how we will be rewarded; and how we will be penalized if we fail to perform.

Then we project that to an independent set of eyes who basically offers an opinion on whether this is a viable offering and whether it gets us to the competitive outcome. If it will, we enter into a Memorandum of Understanding, which is absolutely loaded with performance indicators. It also includes very specific language on incentives and defaults. So that is an oversimplified description of a fairly complex process.

There are really four key criteria you have to lock on to when you talk about bid-to-goal. Obviously the first goal is to establish a performance level that reflect the savings needed to

yield a competitive result. There is a lot of discussion on competition being the key, but part of the definition of competition should be the availability of the alternative service provider, and the willingness to turn to the alternative service provider. That's the power behind competition. A bid is not competition. A bid is a snapshot or a price that's frozen in time and is likely to change over time. The real competition comes from knowing that the customer had a choice and is likely to take it or you have to define the scope of service again. We have to clarify what it is the customer wants to buy. We know what we have been doing, but what do you need to buy in the future? What is it that the public employees are committing to provide in exchange for a service fee or an operations maintenance fee?

The third item is firm schedule. This is very important because generally there's a mentality in the world that if I can run a block it might be easier than dealing with change; okay? Bid-to-goal is absolutely fixed to a specific time frame. The projects that we have done run from nine to twelve months. Within that time frame, you have to agree on a scope; a target; and a methodology for pursuing those two. You have to agree on terms and conditions of the MOU and be prepared to implement within 12 months.

I want to stress that this is an effort that involves absolute cooperation of labor and management. They're in it together, for sure. If they can't come to agreement on what they need to do within a 12-month period, then they are in default of the process. That means that the customer then can turn to their alternative service provider and continue in the process.

The service agreement itself is implementation driven based on terms and conditions with detailed service language. A lot of people say well, an MOU with public employees is really not enforceable. Well, have you ever tried to terminate a contract

with a private company? Anybody been successful? Well, you can terminate an MOU with public employees yearly, today, okay, if that's what you want to do, and they know it.

Establishing a target goal. At the risk of confusing people, I'm going to explain a misconception that's out there with the hopes of solving this. Bid-to-goal is not about soliciting bids from private companies; taking their numbers, then tossing the private companies to the side and awarding an agreement to a public entity. It's basically a calculated exercise of determining a competitive cost. It's very similar to what Johnson Controls would do when they prepare a bid to pursue a project, and then squeeze out a price. You take a look at the scope of service; the risk; and the tools and resources that are available. You use your best estimates to figure out if there is a way you can do it for less. That's what you write down. You then submit this and it becomes a bid.

What we want to do in establishing these competitive target goals is take a look at what it would cost a private company to offer these services. Include those costs, and also include into the goal those overhead costs that don't go away if a private company takes over the operations. You know, if we're not going to reduce the number of people working in the White House, why should we be penalized in our bid for that share of our overhead that works its way down to us if it's not going to go away. On the other hand, if Johnson Controls wins the contract, and a big chunk of overhead does go away, then we should have that charged against our bid because that's clearly a benefit to Johnson Controls. Not to pick on your (indicating) company, sir.

Bid-to-goal is an alternative with a distinct advantage. I'm not going to take you through all of it. First of all it is faster. And then if you work your way down the list (indicating) you see that it also involves commitment to results. That's one

thing that's often missing from reengineering projects. In reengineering we say we are going to be better. We don't say that we're required to reach a certain outcome under certain terms. We just try to be better. So, if this is absolutely committed to results and to performance incentives, then what's in it for me? There's a tool involved in this process. Anytime a human being faces the prospect of change, the only way you're going to get them to change is to get them to understand that there is something in it for them.

Everyday when I'm in the office in White Plains, if I eat lunch I eat the same thing, every day. I'm sort of ashamed to admit that but I do. Why? Because, you know, I trust that ham sandwich. It's served me well all this time, Why would I bother to change anything else, especially at the cafeteria? Every time I try to change to another sandwich it's not good, so I just don't change. The only reason I'm going to try turkey is if somebody convinces me it's really good. You know, I have to have incentive to change, and then I also have to know if there are ramifications for failure.

If you don't feel that anything is going to happen as a result of not cooperating or failing to keep your word; why would you bother to take it seriously. Bid-to-goal is all about keeping your word and there are ramifications for not doing so.

Advantages to bid-to-goal as compared to other techniques. There's some room for debate in these I'm sure, but I'll tell you what I think about this. Bid-to-goal is fast. It takes one year. It's a low cost process. You know, the question that often comes up is how much does it cost? Well, obviously it depends on what you're looking at, but our experience is between \$2,000 and \$3,000 a head in the unit to be studied. Compare this with GAO's analysis that found A-76 studies to cost anywhere from three or

four hundred dollars to \$9,000, and maybe \$15,000 a head. So it's low cost.

It's absolutely dedicated to achieving a competitive outcome. The savings are verifiable because after all we are working against the service agreement with very specific performance requirements. And we are required to report on those performance requirements. The reason I say maybe on the slide (indicating) is there has to be a willingness by the customer to monitor your progress, and that's certainly missing in many aspects of the federal government.

Is the service agreement driven? Absolutely. Is there a likelihood of challenge? It's a low likelihood of challenge. If nothing else, we don't have a bunch of private companies involved in the process, at least at the beginning, who have invested hundreds of thousands, if not millions of dollars on their offering. They need to know that their costs are going to come to an end at some point and there will be an outcome. Well, in bid-to-goal, as long as the employees are performing, there's only one party involved and that's the employee offering.

Drawbacks to bid-to-goal. This is really important. Any target will be criticized. Some say it's like playing poker with your hand exposed. If I show you my hand, you can beat me; right? It's like bidding with your numbers exposed. Anybody can underbid you that way. So any target will be criticized. You have to just face that right off up-front. Potential private bidders are likely to oppose the process, at least if they don't understand it. They will oppose it because they would like to get a crack at an opportunity to provide these services. You can't blame them for that. On the other hand, they know that under A-76 they take tremendous risks in participating in the process because of the time it takes. The fact is they do have competition and there's always potential for challenge and lawsuits or extended processes

which is pretty costly in itself. In the event that the labor/management effort falls short, there should be an opening for a bidding process, and it should be mandatory. That's part of the penalty for default.

The citizens and the taxpayers deserve real change and they have to know that one way or another they will get it. Either the public employees will bring it, or alternative service provider will bring it through their bidding.

Bid-to-goal has been used in a number of locations. It's called many different things, that's one reason why there's so much confusion about it. The one I'm going to talk about very briefly right now is the City of San Diego's Metropolitan Waste Water Department. It's a rather large utility, but I think the portion of the utility we looked at had about 400 employees. I'm going to give you the answers first. This graphic (indicating) basically depicts the financial commitment made with the physical bid. The deal was that the public employees, via a formal offering, promised to operate the wastewater treatment system in San Diego for 77.7 million dollars less than they would have before the bid-to-goal process. So, they promised about 78 million dollars in savings over a six-year period.

As of July 1st they celebrated the completion of their fourth full year out of the six in the commitment. What you can see in the graphic, in yellow, is the amount of savings that were promised as a minimum under the deal. Now, this is really important to note. The bid-to-goal target represented the minimum outcome allowable in order to be viewed successful. That's what you see in the outline. That accounts for 78 million dollars; okay?

What they realized by building their positive performance incentives into the process was, not only did they save money on schedule for four years, shown on the chart in yellow, they saved

an additional 29 million dollars beyond their minimum performance targets, which you see in orange. Why? Because the employees had something in it for them.

What did they do? They worked very hard to go beyond the minimum to provide additional savings. If they were a private company we might call that a profit. The vast majority of those savings were plowed right back into the taxpayer's interest. If you asked the Mayor of San Diego what he would think of this process, I'll bet you that Mayor would say bid-to-goal is a gift from God. Twenty-nine million more than we even counted on by way of savings.

How did we get to this point in San Diego? Well, they had decided to go through an 18-month process. It really began with the Republican National Convention that was held in San Diego a number of years ago when the Mayor made the welcoming address to the convention. She was talking about how her government was going to be operated like a business and how they were going to turn to private companies to do many of the things that public employees were doing. They were going to do that via an 18 month study through each operating unit of the city where they would evaluate themselves; explain everything that's wrong with them; come up with suggestions for how they think they could fix it; and then be evaluated by efficiency committees for a decision as to whether they should bid for their jobs.

Well, we viewed that as the equivalent of showing their hand, and that's not fair. It's just not fair. So we suggested a change in the process and the pursuit of bid-to-goal. Here's what it produced: Again, guaranteed savings over six years of 78 million dollars. Additional savings in the first three years of 29 million dollars. Minimum performance guarantees which have been met for four full years. Savings compatible with an award winning program. In fact their facility won environmental awards

for regulatory compliance. In a few weeks, the City Manager will be presented with the International City Manager's Association Innovation in Government Award for the bid-to-goal program.

Their safety record is better than ever. On top of that, they routed more than eight million dollars into a program we called the Employee Assurance Fund. This is their incentive fund. Those eight million dollars came from those excess savings, and those eight million dollars are directed by an employee driven committee into a number of different types of investments that reinforce their ability to be competitive, including bonuses.

They also went out and bought three buildings and gave them to the City of San Diego because they felt they would advance their logistic position. So, it was quite a good thing. They also used money to compete with the private sector to run a federally operated wastewater treatment facility.

If you take nothing else away from this presentation, I want you to remember four key points. First bid-to-goal is all about expanding the competitive process. Secondly, it's all about setting expectations. You know, any problem we have in life can be tracked back. We always say we should effectively communicate. However, we need to communicate with an understanding of expectations. The third thing I want you to remember is that it builds incentives. The people have a reason to change just as the private sector often provides this for their employees. Finally it's tied to quite rigid measuring and monitoring. Frankly the measuring and monitoring is one of the best friends that the employees have because they participate in this process.

I also would remind you of one other thing. It was public employees that put the first man on the moon. All the others were public employees too. It's public employees who land F-16's on Navy carriers, and it's public employees who help to clean up the

environment, deal with disasters and to foreign and domestic threats.

It's public employees that put us where we are today, so the least we can do is give them the help they need to go from a service mentality to a service at competitive price mentality. So thank you for the time.

Mr. Comptroller General, if you have any questions I would be happy answer them.

CHAIRMAN WALKER: Let's have the other panel members go and then we can ask questions to everybody at once. Mr. Meason, I think you're next, please.

MR. MEASON: Thank you. It's indeed a great opportunity for me to be able to be here. And although I have retired from the Army service, I spent a great deal of time working in this particular area. I thought the things that I had worked on and the initiatives that I am pursuing, might be of some value to consider here.

The organization that I began with was an Army organization entitled Applied Technology Test and Simulation, We kicked it off in 1989 and had about a dozen government employees; about 15 contract support; and a total budget of about six million dollars. Ninety percent of that budget was earned income providing services to other government activities. So, the appropriated dollars that came from that parent organization was only about 10 percent.

I and the other part of the organization was very much interested in providing services to the Army, Department of Defense, and other government activities. That was our focus. We were also very interested in expanding and moving into other interesting, technology areas. So, from then until about 1998 I, along with several other key individuals, grew that organization to about 100 government employees; about 150 contract support, for a total

budget of about 42 million dollars. Ninety-six percent of that was earned income, through which we provided services to other government organizations.

Toward the end, we were providing a great deal of services through contract to commercial entities. So, at this time, we felt like we needed to expand services even more than that. Things were changing such that there was more pressure on the commanders to focus their attention on what they considered to be their core values, Even though they had activities that provided a great deal of service to other Army, Air Force, Navy government entities, if it was not in that particular core area, then they considered that as utilizing resources that took away from that core mission area.

In this particular case the services that my old organization provided was not in that core service, even though we were almost a hundred percent funded by providing services to the other Department of Defense entities. So, I was desperately asking the following questions: How can we improve our business? How can we restructure? Can we become a nonprofit government owned entity? Can we move outside of the government? What can we do? We were providing services that were extremely important to other activities but we looked at a number of those services and really didn't get very far.

So, about a year before I retired I was in a conference and listened to a proposal that was presented by Mr. Steve Sorett of the Transitional Benefit Corporation (TBC). I thought this approach looked to me like a mechanism that could be used to maintain that activity and keep those services going for all the other entities within the government that needs them, as well as commercial activities, and reduce the cost to the governments. Free those assets to the Commander where he can put many of the things into his core business area.

So, this was particularly attractive to me. One of the things that was most attractive about the TBC is it focused the attention on the people. Those government employees that have a lot of expertise and capability out there were assured under this particular technique of being able to continue receiving their government benefits. They were assured to be able to work under those benefits until they needed to cash them in.

This was really an interesting idea. I pursued it, and I applied the concept to my old organization. I must tell you that my organization is not unique. I could probably list at least 15 or 20 or 30 other government organizations that fit the same category, and there are probably many others out there that I don't even know about.

So, that's the background. By the way, I'm a scientist by formal training and professional activity. I almost feel a little disadvantaged because I don't have a legal background. I don't have the details, but I do have a nose for smelling out good business opportunities and what's good and what's bad and where the risks are.

CHAIRMAN WALKER: Sounds like you're in pretty good shape to me.

(Laughter).

MR. MEASON: I would like to talk about four things very quickly and then move on. First, what can happen under the TBC concept? In my view they are advantages to the government in terms of saving dollars; saving people, and providing those services. Nobody loses on the service activities.

The bottom line here is that the government no longer owns the activity. In other words, the people represent all of the assets, the non-realty assets go along with but at the same time

there is no longer the cost burden of ownership for that particular activity. The services are still there for the host installation. The services are still there for all of that customer base that provided reimbursable dollars in the first place. So, that what's I would like you to take away from this particular chart.

Additionally, I like the idea of the reach-back capability through the agreement to the Transitional Benefit Corporation, which is a nonprofit entity. Through that agreement the government has what I call reach-back capabilities. That is, under an emergency situation, if they need to have some of those government employee experts back to do particular services, they can do that. If they need the services back, they can do that for a limited time, as long as they have that need or emergency. So this is an important idea here.

Second thing, what type of a government activity fits the TBC methodology? You can see my list right here on the chart. In my view, there are probably many, many activities that can fit this particular case. However, to me, an RDT&E type of organization that is highly reimbursable looks for those government customers to provide those services. It has a large number of customers across the board, and even has a lot of commercial activities that are prime candidates for this particular case.

So, what's the first step in doing this? My feeling is we can probably talk about it for a long, long time, but my philosophy has always been, okay, sounds like a good idea; let's try it. My first point here is let's start with a pilot program. Let's try it out. Pick one. Have the government pick one. Have a nonprofit like a TBC submit a proposal, but let's pick one. Let's jump in the water and find out real quick if there's any sharks there so we can figure out where to go from there. So, that's what I call the first step.

I see no reason to wait around and keep discussing it for years to come. I want to give you a very quick example, then I'm going to wrap it up.

Lets look at a particular situation that is typical of many. This is going to be a government activity that has a customer base out there that deals with both commercial and government, and these are the ways in which they do business. It's easy for the government, because all the government entities need to do is simply run a three, four word statement of work, send it in and the work gets done in that capability.

The commercial sector can do it almost as easily with certain types of government organizations. That's the Major Rank Test Facility Basis. The Major Rank Test Facility Basis can contract directly with any private entity. There are a couple of caveats there, but they can do that.

So, this is the way it works now [speaker describing briefing chart]. The government picks up the cost. They have a long-term liability. There are restrictions so Commanders must remained focused and pay attention to detail. The next thing that happens if you exercise a TBC concept is that you begin the privatization process. The dotted line around the center box means the government no longer has a cost liability and can maintain the cost associated with the people. The TBC now has a cost requirement to maintain those government benefits to take care of the people. So you transfer the government assets and establish a transition contract. Then you can negotiate with OPM to do the benefits. That's all the responsibility of the TBC.

What's important about this chart? From the customer point of view over here (indicating) nothing has changed for them. They get the same service. They get the same things that they did before. That's one of the key things. They are looking at the same people they dealt with in the past. Following that, the TBC

can then move to immediately develop whatever relations are important with the private sector. They can spin off new business units using expertise and so forth associated with those government personnel and perhaps others that moved over from the TBC.

Finally when it's all completed and it's operating properly, then you have any number of ways in which you can move work to satisfy the requirements both in the government and in the commercial side here (indicating). So, that's the example that I would use. This probably fits any number of activities within the Department of Defense. That's the one I'm familiar with. I suspect that it goes much broader than that.

What I would like to leave you with here is, having been there before, it's a very attractive process. I think that it would be highly desirable to initiate a pilot program. Let's test the methodology to see whether it works. Let's fine tune and fix it if it looks like it's worth fixing.

From what I know about it, I don't see any negatives. I'm sure there's probably ample opportunity for negatives associated with it. A key thing that I like about it, which I'm always been sensitive to, is that it takes care of the people that are involved in the process. That's what I like. Thank you.

CHAIRMAN WALKER: Thank you. Mr. Neece.

MR. NEECE: I appreciate the opportunity to be here today to talk with you about the use of employee ownership and employee incentives in the restructuring of the government as an alternative to A-76. I know that the Chairman is familiar with Employee Stock Ownership Plans in the private sector. Just for those of you who may not be, this is an extremely well accepted

method now for business succession and business transition in the private sector.

The latest data indicates that there are over 20,000 U.S. companies that are partially or wholly employee owned. The latest research data indicates that those employee owned companies routinely out-compete the same business of the same size that are non-employee owned. The reason is because it's very simple and straightforward. If you give people a piece of the action, the incentive to produce results, and the ingredients needed to produce results, they will produce results. They will produce fantastic results. If they get to share in those results, they will produce more results and faster results.

For this reason, the United States Congress has seen fit to come forward with a number of legislative programs to encourage the use of employee ownership in the private sector.

Since 1979 I have been providing financial advice and I have been an advisor to billions of dollars worth of Employee Stock Ownership Plans to the private sector. Since 1993 our firm has applied this particular expertise into the restructuring of federal, state and local governments. We have responded to requirements of people that have come to us saying there's got to be a better way of doing this. Is there a better way? Does it apply in my particular situation?

The first situation we looked at was the Newark Air Guidance Nutriology Center Newark Air Force Base, which was closed in the BRAC proceedings in 1993. What I would like to tell you is that these ESOP approaches, which can be found at the end of my presentation, have various linkages and informal URL's. These websites for example point to the Federal Policy Guidance issue of May, 1995, which is some 27 pages long. In this document, OPM and the National Performance Review issued executive guides on

privatization. direct your attention to that because that is should be part of your record.

These approaches provide a more employee friendly alternative to A-76. They provide a seamless transition to contractor performance with less loss of institutional knowledge, and have been shown to produce real cost savings to the government. The ESOP process provides a mechanism for input of effective employees into the privatization process; they are not kept out. This is not the fed co-op program which was developed in the Reagan administration. Many of the allowable goals of ESOP privatization give the employees a piece of the action. The award for success of privatization and restructuring were there but employees were not allowed to participate in the process. This was done to them and handed to them in the end of the process. One can imagine that federal employee unions and employees themselves were not particularly happy. Therefore, there were no fed co-op programs ever implemented.

However, the ESOP privatization process basically provides a mechanism for them to have a voice, and also provides them with a mechanism to get a share, and a very healthy share of the reward of successful completion of the restructuring process. Basically they get this by getting an ownership interest in the successor contractor that continues to provide the services. If that contractor is successful, those employees will enjoy large economic rewards.

Also ESOP approaches can provide economic incentive and retirement security for current federal employees in A-76 situations; base closure situations; business line terminations; reimbursable business line withdrawals; or other kinds of restructuring. Basically every kind of situation where A-76 could be applied, ESOP privatization could also be applied.

We have done approximately 40 assignments on behalf of the federal government. The most notable successful example is the privatization of the Office of Personnel Management's, Office of Federal Investigations. This office had 834 employees, which had been studied under A-76 twice, and was found to be totally intergovernmental. It was found in fact that there was an inherent intergovernmental portion and a commercial activity portion. The commercial activity met the yellow pages test that Skip talked about. You can in fact get background, security, and investigation services in many places around this country. This privatization initially created a new employee company, which was 90 percent owned by the rank and file workers and 10 percent owned by managers. Now, only 75 percent is owned by employees because last year they sold 20 percent of the company for 50 million dollars in cash value. This was done in three and a half years operation and over 250 million dollars in revenue. Again, this was a company that was 100 percent owned by employees.

This privatization has produced real outstanding results for the government, and it's produced real cost savings. The GAO has the results and I would encourage you to take a look at that. These cost savings are at least 100 percent greater than the 30 million-dollar cost savings estimated by OMB in 1995 prior to privatization. The 30 million savings was based on a traditional outsourcing approach.

ESOP approaches have also been used in 1999 with the privatization of 425 employees who were providing an environmental remediation service on a totally reimbursable basis for Navy detachments operating out of the closed Charleston Naval Shipyard and Louisville Shipyard. It was created to help with the environmental remediation of those BRAC bases. It was very successful. Government employees there were supposed to trend downward along with the workload but the workload never trended

down. Government customers have been happy and enthusiastic to use them. We were able to end up with a partnership with the private sector.

Also, we privatized the Army Management Engineering College, which was in fact a college. The main curriculum activity was business process reengineering for commercial activities. It also happened to be a training unit in the Army Material Command. A fish out of water there. Upon its closure, we were able to engineer a partnership with a private sector employee owned firm.

Lastly, I would point your attention to what was in the Wall Street Journal on July 31st. The United States Postal Service has recently decided to move ahead and use privatization instead of traditional outsourcing to accomplish the continuing service provision regarding EEO investigations--EEO complaints lodged by Postal Service employees against the Postal Service. The Postal Service accounts for more than 50 percent of all federal EEO filings.

The ESOP privatization has also been seen as an alternative to closure, or partly a means to eminent base closure, or withdrawal from a reimbursable business line as it was done in the OPM situation. The OPM-OFI was completely reimbursable, operating in a revolving fund situation with 118 different agency customers.

It also can be used to enhance the A-76 process. This is a very recent development, and because it's so recent, no one that's on the leading edge has decided to step forward and be the first to bleed, but let me tell you how it could work. Basically in this approach, the affected employees have the option of forming an ESOP partnership with an existing private sector bidder. That partnership, would specify the rewards to be given to employees upon success of the partnership, such as: employment conditions,

technology, other kinds of things. Then this group competes in the private sector competition under A-76.

If that partnership with the employees wins the private sector competition, then in fact the competition is between the employees of the MEO, and the employees that work the private sector partnership. This again has not yet been implemented, but it has been signed off on by OMB, and I'll talk a little bit more about this in some detail.

It is also possible for the ESOP approach to be combined with the non-profit approaches, either the TBC approach or an existing public non-profit. Under this combined approach, the current federal employees who would become employees of the public non-profit, have the opportunity to continue to participate in federal retirement programs, especially CSR's program.

This can be especially important for employees who might for example be 51 years old and have 26 years of service. These employees may have through a rational decision process chosen to become federal employees; not to become private sector employees. Perhaps they would like to continue to serve out their term in federal government, especially to reap the retirement benefits involved with CSR.

By having a public non-profit as the subcontractor, it is possible under the Intergovernmental Cooperation Act to have those former federal employees become employees of the non-profit organization. They could continue for up to four years in the federal retirement program, and therefore reach their retirement goal. This in addition to retirement programs that they would receive as employees of the non-profit, particularly a 403B for example.

Both these ESOP and non-profit approaches are good for the federal government, and they are good for the taxpayer. They demonstrate good employer relations. This is a more employee

friendly approach. This is a voluntary approach. As you look at the draft policy guidance you will see that employees cannot be forced to become employee owners of a company, neither in the private sector or in the public sector. This is a volunteer activity.

The reason it succeeds is that these ESOP approaches are able to offer a benefit and compensation package that exceeds what the employees could expect under the federal government situation. They can, in some other cases, greatly exceed the economic rewards that could be expected there.

These approaches provide efficiencies and cost reductions. Employee owned companies are lean and mean. Not because there are three people who own the company at the top and who spend 18 hours a day trying to figure out how to tighten this particular box group or how to tighten that particular box group. Everybody in an employee owned company watches costs. Everybody brings in business.

I could give you example after example after example of rank and file employees coming forward with ideas that have saved employee owned companies millions and millions of dollars, and generated incentives. It does not depend on the whim of management on whether it be good, bad or not. You own that stock and you have the incentive to work harder, work smarter and produce the reward that comes with that ownership.

We talked about the OPM example that's generated tremendous cost savings to the federal government. The OPM priced its services on a price schedule on 37 different products. To date, one of the contracts with the employee owned companies achieved a cost savings, and in that five year period negotiated a contract with option years. The cost savings have increased every year. Not only that, the turnaround time for investigations has decreased and the quality of the investigation has gone up.

When we did the initial work to see whether there would be a market opportunity for the employee owned company, the federal government's total employment was faltering. Therefore we projected that the number of background security investigations that were required to be performed would be falling. Well, it turns out that that wasn't the case. In fact, the federal government has been hiring in the area of INS, DEA and other areas where you must have a very secured, cleared personnel in order to do this. So, therefore the number of investigations has increased by one third. This company has been able to handle that increase with improved quality and cut costs.

Also, what happens is that ESOP privatization expands the competitive base. In the OPM situation for example, OPM found through consultant study, that if they chose to outsource, and that was 255,000 background investigations a year, the single largest company in the private sector did 25,000 background investigations a year. From that it dropped down to eight thousand. From that it dropped down to two thousand, then you were down in the hundreds.

So, basically by creating this company out of the former federal capability, the federal government has increased competition. It has created a source. I would direct your attention in this regard to the strategic sourcing diagram that's been issued [see presenter's briefing charts]. If you look at the privatization section of the chart, it and says, if needed, create a source.

So ESOP privatization is one way to take an existing federal government asset, and create a competitive source in the private sector that will continue in the future and engender competition in the private sector. The United States Investigative Services, which is the employee company that was formed from the privatization of OFI, has now grown from 774 employees at its

start, to over 2,000 employees. They have done this by winning competitive contracts with the federal government and with commercial players.

Also, it shouldn't be overlooked, that ESOP privatization and ESOP competitive results out of A-76 have directly reduced the size of the federal government. Because ESOP is a voluntary process, those savings can be even larger. Some of the incentives that are exhibited early on, become things that may have to be offered to emphasize change. Those incentives may not need to be employed in ESOP situations. Similar to other private contractor situations, it is often easier to control and specify the technical results that you want out of the contract to control your future cost.

For example, in the environmental remediation and background investigation cases, these activities performed by the federal government were not required to be licensed or regulated in the same way that the private sector providers of these services are required. Therefore, the federal government had less assurance of the quality that was taking place. And under a third party, you might need to rely on the results of the environmental remediation background investigation; you should have less confidence. Now that they are operating in the private sector they are fully licensed and certified and meet all requirements that go beyond the minimums.

Also, it's very important to understand that because of the volunteer nature of this, and the fact that this process, if done correctly produces rewards for the employee; it reduces employee resistance. This is not to say that employees wholeheartedly embrace the ESOP concept. Generally they do not, and that's because they do not think that the situation is real. The ship is not burning yet. When the ship is really burning and they must

look at the alternatives, we have found that this ESOP approach can work.

The other thing that it does, is that it provides a seamless transition here. What happens is that you have a unit close to privatization, close to the completion of an A-76 activity, which is composed primarily of those federal employees that were providing the service in the first place. There is very little loss of institutional knowledge. In fact, you have a gain, basically, of private sector management expertise, private sector technology expertise, and combined with that, federal knowledge.

The OPM situation for example, on Friday at 4:59, they were federal government employees. On Monday at 8:00 a.m. they were private sector employees. There was not a single slip up; not a single investigation was delayed.

The other thing is that it really is good for federal employees because it reduces the potential adverse effects of the traditional A-76 approach. By basically being involved in the ESOP process, employees are empowered; there are no guarantees; they generally must compete for the business that they get, unless there are special mitigating circumstances. This was the in case of OMB where it was clear that the federal government, without the requirement for 250,000 background investigations, might not receive a single qualified bid.

The other thing about ESOP, the private sector, and the non-profit approaches, is that once this transition is made into the private sector business-like environment, whether that be non-profit or for profit, and you own that company, you are going to grow it. You are going to make the company expand. This allows you to escape one of the boxes that you paint yourself into in the A-76 situation.

A-76 is very hard to win the game even if you win. When you have won, you have won a declining workload over time, which is

going to typically require you to reduce that fee. If you have a search capacity where your workload increases, you have a tremendous problem getting the technology you need, for hiring or going back up the other way.

Whereas, with the ESOP situation, basically those companies are empowered to go out and grow. By growing, they can employ the people that would have been exempted in the A-76 MEO. By doing this, they reduce the employment and financial risk that is assumed by the whole group of employees. There are many more winners than any losers in the ESOP approach.

Lastly, the ESOP approach does produce some positive benefits outside of the A-76 process. The use of the ESOP in the private sector has produced tens of thousands of millionaires. People who make typical earnings, average earnings in the United States, less than six figures. It produces wealth. The other good thing it does to benefit the United States government, is it generates tax revenues from uses. It is receiving revenues now in reduced costs from situations that used to be all cost.

For these reason we think that the ESOP approach should be looked at more broadly. Having said that, it is not applicable in every situation where there's an A-76. In order for a private sector, profit or non-profit company to go forward, they must have been a market opportunity. There must be a business-like operation here. If there's not a business opportunity, then there's not the opportunity to pursue this. Thank you.

CHAIRMAN WALKER: Thank you very much, Mr. Neece. Let's open it up for questions now. Frank.

PANEL MEMBER CAMM: You all have some interesting ideas on how we can use some of the options that are available today more effectively. Could you help me by clarifying what explicit changes in public policy would be required to take advantage of these approaches?

Are there things that are keeping the government from doing these things today? John, in your discussion, you mentioned that you couldn't do this in an A-76 context, but in a context where you are reengineering the government from the inside, is there anything today that keeps the government from doing what you had in mind?

MR. WILLIAMS: Actually, in doing our homework we found that bid-to-goal would be allowed as an alternative source. I think the biggest impediment to using this, is just getting used to the process, and being willing to be the first project. We have a series of test projects that we are trying to develop at the Navy facility in Jacksonville where we actually won for the client. The Navy wants to try bid-to-goal, but the units have already committed to the A-76 process. So now they have several congressmen involved, requesting that those units be pulled back. It's being that first one in the pot that I think is the real challenge.

PANEL MEMBER CAMM: Thank you.

MR. NEECE: There are no particular legislative or regulatory restrictions to the use of ESOP. In fact, there have been several good examples where they have already implemented the policies in place. However, in every single situation where we go out to talk to someone, they say, "Can you do this? Show me where it says that you can do this. All right? Where? "Show me." You know, it's got to have a place right here that says I can do this. And there is no such thing for ESOP.

PANEL MEMBER CAMM: Of course for an ESOP you have to have a for profit entity. You can't have one for a not for profit.

MR. NEESE: That's the second one, and transfer of assets.

PANEL MEMBER CAMM: You agree that, intellectually, you can merge what Mr. Meason is saying and what you are saying, Mr. Neece.

MR. NEECE: But you would have to have a value ascribed to the assets that got transferred in the corporation. The government/taxpayers would have to receive some of that money.

CHAIRMAN WALKER: Any other questions?

PANEL MEMBER CAMM: So is the major challenge here making people aware of the ESOP; not changing the policy.

CHAIRMAN WALKER: There's one thing that I would have with regard to bid-to-goal. Now, on one hand I think it's good to have a convergence of interest between labor and management. I clearly think you have got to create a climate where there's constructive engagement; call it a partnership; call it empowerment; call it whatever you want to call it, but if you don't have labor and management working together you are going no where fast.

So, in accepting that you create incentives and mechanisms that try to ensure that partnership. That's good. One of the things you talked about is the need for an agreement that describes time frames. If you don't you're at risk; you're out of the competition.

What type of safeguards exist regarding conflicts of interest provisions, or safeguards to prevent a member of management or the union from not agreeing because they might provide employment opportunities with one of the other bidders that are out there? That would be the only thing I would be concerned about.

MR. WILLIAMS: That's certainly a risk. There's no doubt about it. We haven't had that problem yet, but we probably will. What we have found though, is that the peer pressure that comes through this process also tends to drive everybody in the right direction. They all know that ultimately it's for the greater good. It's like the gentleman from Indianapolis said, they wanted to do the right thing. But there's no doubt we'll run into that case.

MR. NEECE: If I could address the issue that you raised of the transfer of assets.

CHAIRMAN WALKER: Right.

MR. NEECE: What happened in the OPM process for example was that there were certain government assets, primarily consisting of encryption equipment and laptop computers that were basically leased back by the employee owned company on a cash payment, paid to the government. Then it was the responsibility of the contractor to maintain equipment, facilities in the future, going forward.

With respect to the Army Management Engineering College, they are headquartered in Rock Island Arsenal there. We looked at a lease arrangement there and determined it was in fact a much better deal to seek private sector office space in Davenport. So they now are located in Davenport. What was happening at Rock Island was the dwindling workload was driving up the per unit per square foot cost of operating there. So it was economically inefficient for the government. We could get better, cheaper fees elsewhere.

But this transfer of assets issue is a real issue. As you well know, if you have a successful private sector company, a purchase of assets can be refinanced.

CHAIRMAN WALKER: The key as both you and Mr. Neece stated is that it's not applicable everywhere. It's got to be a situation where there is market demand. Preferably in circumstances where there is market demand not just based upon government service, but also private sector, demands on referral.

MR. NEECE: Exactly. That kind of demand would need to be established for example during the feasibility study. Before you would proceed to implement, you would want to determine those demands.

CHAIRMAN WALKER: Any other questions? I thank you very much, all three of you. I think now we are at the point where as I said, if the Panel needs to take a break, just take a break, and we'll just keep on moving.

We now have a number of individuals who wanted to provide testimony. Please see if you can conclude in three to five minutes and then we'll have time for questions. We want to hear from all others, if we can, but I know we've got to be out of here by 5:00 o'clock.

Individual Speakers Participants: Dr. Dan DeHayes, Professor, Kelley School of Business, Indiana University; Robert Gordon, Senior Management Analyst, MEVATEC Corporation; Mike Locklin, President, American Federation of Government Employees, Local 2302; and Mariann Meeks, Senior Analyst, BET Incorporated

CHAIRMAN WALKER: Mr. DeHayes, why don't we start with you and we'll just proceed from right to left.

MR. DeHAYES: Thank you. I'm a professor in the School of Business at Indiana University. I was asked by Crane to come in and essentially do an evaluation, if you would, of the efforts that they had underway in business process reengineering. You may remember their presentation that was made, what, six months ago it seems like now, by most of you I assume.

(Laughter)

In any case I came in and looked at their BPR operation from about mid or early 1999 to mid-2000. As a result of review, I wrote a couple business cases that are used in business schools and textbooks regarding the process of business process reengineering. I want to leave you with five observations. If you are considering expanding the notion of BPR in other kinds of government operations, I listed 10 different key success factors in the written statement. Let me in the interest of time boil this down to five.

Number One. This is a huge operation that they undertook at Crane. Most business process reengineering efforts that I have seen in the commercial sector are limited in scope. I led one here at the University where we looked at the Indiana University Medical Center, and all we did was study the process of hiring people and that was tough enough.

What Crane did was to look at many different kinds of processes. You may wonder why it took a while before some of the results were achieved. Well, they undertook a massive effort. So one of the things you could do is limit the scope of the reengineering effort. Now, they got a lot more benefit, but obviously this was a high risk, high reward kind of process.

Number Two. I was struck with the way they went about interacting with labor. In the commercial sector, which is of course my background as a professor of business, many times it's highly confrontational. There's a lot of morale problems at the end because everyone knows that an easy way or at least one way by which one reduces cost and get more efficient, is to reduce head counts.

I was struck with the way that Crane went about the process of interacting with the union--dealing with those issues up front. Now, you heard a lot about this already in terms of interesting ways to do it both at Crane and also the City of Indianapolis. But certainly, I think those kind of guidelines would need to be pretty clear regarding this whole effort of working with labor.

Number Three. This group did in fact deal with what I call the sacred cows. Any organization over a period of time learns how to deal with certain situations to minimize grief. Pretty soon those things that were never written down, end up being the way you do things around here. Most reengineering efforts that I have seen won't deal with it. They will deal with the information technology. We even come up with a new system; we'll eliminate

some positions, but we won't really go after the tough stuff which has to do with trust. These culture issues are kind of tough to deal with, like nailing Jell-O to a wall but Crane did it. And I don't know how you encourage that from a policy standpoint.

But the sacred cows have to be dealt with. Now, I understand, I was born at night but not last night, we aren't going to deal with all of them, but to the extent that you can, get organizations to think about dealing with the sacred cows. People build up shadow systems. They have people stuck away various times doing the work, but somebody else is redoing the work. Now, I know that never happens in any of your organizations, but that happens everywhere else. The more you can discourage that behavior, the better.

Number Four. Crane, was able to sustain support for reengineering which is not the most popular thing in the world to install; okay? They did that since 1999, through changes in command. They managed phenomenally well. Any time that you are involved in a long-term project, as I'm sure you know, management priorities change and other kinds of things come to the fore. They sustained that intense effort and did it very, very well. We could learn from their experience.

Finally, they could have done better with what I would call anticipation. At one time, we had a coach around here that talked a lot about anticipation. He said that anticipation was the key to winning basketball games. Likewise in a major project, if you've not really done a lot of it before, you can't anticipate all the problems like the rumors that come up, even though you haven't even thought about that and the problems associated with resistance from middle management. There were huge problems at Crane. You heard the same thing I think with the City of Indianapolis. Middle management tends to resist this kind of change a great deal.

Probably some training on the kind of things that are likely going to occur when you go through business process reengineering could have really helped some of these other organizations. If you think this makes some sense as one of the alternatives, then they could kind of get off the dime and go do it.

Undertaking reengineering is not something for the weak. Most people get a little worried about it because they are not quite sure what to anticipate. A little bit of help along those lines, given that I'm in the education business, it's probably not unusual for me to talk about the value of education. So those are my comments.

CHAIRMAN WALKER: Thank you very much. Mr. Gordon.

MR. GORDON: Thank you, sir. I'm a former Air Force Manpower Officer who has used the tools such as process reengineering for over 20 years, both within and outside A-76. That experience has convinced me that competition must be used to force change and to prevent studies such as business process reengineering from being put on the shelf as just another report. I urge the Panel not to discontinue the A-76 cost comparison process entirely. Cost comparison processes are not perfect. In fact, far from it. However, on balance it works and it's fair. The same mandate, competition, that drives businesses in the private sector to focus on costs, must be applied to the public sector as much as possible.

I urge the Panel to consider immediate implementation of the following targeted improvements in the process, and after listening to many of the discussions earlier today, was glad to hear that a lot of these matters have already been discussed, and so I think you will see some recurring things here.

First, is to centralize execution of study. I know this one sort of contradicts some feelings that have been expressed.

By execution I mean the actions, procedures, and processes associated with carrying out the cost comparisons. The higher the level of centralization, the less variability, inequities, unfairness, protests, appeals, and turmoil there will be in the conduct of the studies. The quicker they can be conducted, the higher the quality of analysis will be, and the greater the savings will be.

Ideally, centralized execution will centrally employ teams of A-76 practitioners who would have the authority to make decisions that impact studies, including specifying functions that will be competed; how required documents are billed; what performance standards will be used and how performance will be inspected.

This is not to say that local installation level organizations would be excluded from the process. On the contrary, their input is vital, especially in developing in-house business plans. Centrally managed non-local teams however will remove control from those who have the least motivation to support competitive sourcing.

Control over study execution by those with the most at stake is a fatal flaw in the program. We must realize that the interests of people whose jobs are at stake do not coincide with broad program goals at division and headquarters levels. The mid to senior level manager or commander does not have the focus of saving taxpayer dollars; reducing infrastructure expenditures; changing processes; or eliminating jobs. The installation office or agency is staffed to accomplish a mission. They are not staffed to conduct a major reorganization. The private sector regularly outsources support functions, but the process is managed outside the functions by separate and more objective parts of the corporation.

The centralization of studies reinforces adopting proven improvements and sharing good news. It need not be a cookie cutter approach that would treat each agency office or installation the same. Centralized studies can adapt to local requirements, but that does not mean that every office, agency or installation is not unique. Even if centralized execution is too big a bite to take at one time, I strongly urge the Panel to consider centralized packaging be done immediately. By packaging I mean the putting together of related services that will be competed; services that share commonality of purpose in terms of mission and the nature of the work performed.

The services selected should also be severable, meaning the nature of the services performed should be distinct, and they should be competed in their entirety. In building packages for A-76 cost comparison, these principles are often discarded as bits and pieces of organizations are included in it seems to meet quotas. It is commonly called "cherry picking"

Poor packaging creates cost comparisons that include unrelated and disjointed groupings and services for which there are often no business models that can be contrived to perform the work profitably. This is the sub-optimization issue that was mentioned earlier during the Crane testimony. Sometimes this is done intentionally to minimize or eliminate competition. Poor packing lessens savings that would otherwise be realized through scale, in consolidation with light services.

Poor packages are different for every industry, as I have already mentioned. Poor packaging wastes time and energy after study begins because of seemingly unending delays related to discussion of what should or should not be competed.

Local management tends to manage faces, instead of taking the difficult decisions that eliminate functions that are inefficient or obsolete. We must focus on only accomplishing those services,

tasks, or products that are actually required by law, statute, or required to meet the minimum requirements of the mission. This protective attitude shifts focus of the work force away from going forward and instead gets wrapped up in an effort to avoid the competition.

We need to provide intensive training to allied activities including contracting, human resources, auditing and public affairs. It has been difficult for these activities to incorporate the demands of competitive sourcing into an already busy schedule, but they simply must do better. In my experience, contracting personnel are generally uninformed about the process and not engaged on a day-to-day basis. Considering that the A-76 is fundamentally an acquisition action, it's especially harmful when contracting experts aren't involved in the process.

The basic principle of performance-based isn't well understood, and without adequate centralized oversight, suffers from widely varying interpretation and priorities. We must start studies by spending time, coming to a common understanding of what performance-based really means. It's easy to say that it means to focus on output or outcome versus process, but front line workers view their part of the process as an output. People expect to see what they do in a performance work statement or they feel they have been discounted. It's important to remember that workers perform tasks and don't also see the end products or service.

Installation leadership often forces PWS developers to include what are really process tests, as outputs. PWS's wind up including many more services than necessary. To get around it is necessary to look at the reasons activities exist; missions they support; and decide how schedules of output should be structured.

We need to develop component-wide come performance measures. We need high-level performance measures that are applicable regardless of specific situations. Installation level workers

want to measure service delivery using measures that relate to specific tasks rather than to outcomes. This approach not only means that our PWS's are focused on tasks, but also the quality assurance efforts can be very laborious and expensive. We're measuring in ways that stifle innovation and we are measuring aspects of performance that are only indirectly mappable to the mission.

I contend that all performance measures and standards should be tied to mission requirements, and that if you can't do that for a given service item, then you are probably at too low a level. Because installation level workers are so close to current processes, it's difficult for them to step back. Solving this issue requires top direction about measures that must be used.

We need to emphasize the stewardship responsibility of managers. As a taxpayer I find it very troublesome, and I'm often astounded at how unexpected many mid and senior level installation managers find my questions about cost, and how little they know about the cost of services they perform. They're focused on their budgets and they don't think about ways to save resources and provide services.

We have to train our managers better so that they understand that they're stewards as to how taxpayers dollars are spent. We need to ask questions as Mr. Stitt said they did in Indianapolis, that if you owned the business, how would you make the same decision. Unfortunately the personnel system and budget process don't reward saving resources.

The second part of this issue is how managers see their roles and where they fit in the hierarchy. In my experience, most installation level managers, especially in the GS-11, 12, 13 range, see themselves as part of the general work force rather than as part of management, even though they are not part of the Collective Bargaining Agreement. I'm not promoting taking sides

or even that we have sides, but managers need to be more cognizant of the business and cost side of day to day operations, and realize that part of being a manager means balancing the needs of workers with those of the corporation.

Lastly, we need to institute data systems that capture costs. This means establishing accounting systems that relate to services and products that consume those resources. Many people recognize this proposition as an activity base cost comparison. The fact is that cost comparisons collect large amounts of data related to labor that align with services and products. In other words, we are in fact doing an ABC based analysis of labor. Please note that ABC however doesn't immediately address the issue at hand regarding the cost comparison. It doesn't contribute to conducting the cost comparison itself, but it does help managers do a better job in the long term.

If we had good service related resource data now, we could do better and faster cost comparison. So in that sense this is a long-term improvement solution. Thank you.

CHAIRMAN WALKER: Thank you. Mr. Locklin.

MR. LOCKLIN: Mr. Chairman and the Panel. I would like to thank you all today for letting me come here to speak. My issue is accountability. That's our largest issue at Fort Knox. I am one of the Quality Assurance Evaluators, and I do contractor's quality performance at our installation.

June 1st of this past year, Armor Center Support Services, which is a merged corporation of General Dynamics and Brown & Root, won and took over our Department of Public Works and our logistics operation at Fort Knox. These are two of the largest contractors in DOD. They have not provided adequate service to our installation. In the crowd here today, some of our guys came up to me and told me about their situation back at Fort Knox. We have a building called 2369, which is where One Star works. That

is where they are based to do training films and activities like that. That facility has been without air conditioning for two weeks. They had to come up here to film some stuff.

We have 80 facilities on the installation where air conditioning is not being fixed. Tanks are not being repaired. There are a lot of various reasons why this happened. One of the key reasons is the contractor did not pick up enough of the prior work force. We stated early on that we wanted to represent the work force. They made a decision to allow us to follow the work. If your union represents over 50 percent, plus one of the work force that he hires, you can follow the work over.

They made a conscious decision to cut it off and hire 42 percent of the workers. Selecting the HVAC section where we had 48 HVAC equipment checks and we were barely keeping up with the systems on Fort Knox. Contractors on the other hand hired two craftsmen out of the past HVAC section, one supervisory airman and one helper. Nobody qualified to repair the systems. In our tank maintenance, our job at Fort Knox is to train the armor force from the basic AIT, West Point, ROTC, to advanced armor courses. That's our mission at Fort

Knox. That's what we do. But it's hard to do that if I don't have mechanics on the installation to repair tanks, personnel carriers, or keep that equipment up and running so we can train the force.

The contractor only picked up about 20 percent our tank mechanics. That's not nearly enough qualified mechanics. They have some workers. You know, you go down to Joe's Body Shop and you hire mechanics or Brady Auto and hire a mechanic and send them to a tank shop and say, "Okay, fix this tank." But it doesn't work that way. You've got to have skills and knowledge.

What they have done at the installation, of course is place a lot of the blame on Fort Knox. I'm a Quality Assurance Evaluator,

but the contract's been in place now for three months and I have not gone out and looked at anything. Why? Last October I was in D.C. at the A-76 handbook meeting, working on the handbook. We got the word that they were going to award the contract. I flew back to Fort Knox. On October 5th, they awarded the contract to the contractors. We had a 30-day appeal process. We went through the process; filed an appeal; knew it was a waste of time; but did it anyhow. There's only one avenue, but I can't come to jail and show all the things that's wrong; I can't go to court. I get very emotional because my job is one of the ones that was lost. But I was fortunate because I'm a disabled vet and I got placed in another job.

On November the 6th, management on the installation knew that it was going to contract; the appeal was over. Did we put an evaluation program in place? No. You know, I talked to my Colonel who's in charge of this study. We merged and made him D-boss, which is a Department of Public Works and DOL merger to form one director. We cut out the middleman. Our MEO recommendation was 40 percent lower than the down sub, but yet the contractor's bid was 25 million under that. So, you know, it's lowballing.

When I talked to my colonel, I said, "Sir, we're the Quality Assurance Evaluators, we're going to start doing our job and hold the contractor accountable". We know, there's all kinds of HVAC systems on the installation that were having problems getting repairs, panels, everything. He said, "Mike, hopefully the last week of August or the first week of September we'll finally get started." Well, the board meets on his evaluation the first week of September. How can we not say to that contractor even though we know it's not been awarded, you're not going to get your awards if we don't go out and look at what they are doing; document the problem and take the problem to him and try to address it, you know.

I have worked for the federal government civil service, since 1985. This contract was a command-wide study. We did not have control over the study. We wanted to do a hybrid, not a total cost plus. I'm sorry, I'm getting so emotional. I lost my train of thought. At our Major Army Command (MACOM) located at Fort Monroe, the standard that the contractor has to meet to be qualified is only a 65 percent rate. If he performs at 66 percent, he starts getting an incentive award.

I mean, I didn't get a reward for only performing at a "D" level when I was in high school or grade school. Nobody started giving me this little incentive award for making a "D". But yet in the Army, 65 percent is meeting the standard; sixty-six is above standard. For those of us federal employees here today, if we're only performing at 65 percent we wouldn't be here very long because we would be a PIP program for our performance and we would be out the door. To me this is unacceptable. Accountability, is important. We're willing to compete in the A-76 process, if we get a level playing field. At the installation, we had full input into the process; we had people on the team develop the PWS; and we had a person on the MEO team helping to build them. Everybody in the place said if anybody was going to win the study, it was going to be us at Fort Knox.

Like I say, we made a recommendation for a 40 percent cut, but got beat by 25 million. The very first day of the contract, we had some stuff in PWS that the maintenance director at the installation decided really didn't need to be there. We pulled it out. So, on the first day, we made modifications to our tank maintenance contract for a million dollars.

There have been cut backs of the military. It may be different at other installations but at Fort Knox the grass and trimming 50 feet around each building is done by the occupants. Most of that was done by the military. Well, through cuts in our

military, we pulled out 360 military corps. When you pull out that many bodies, you don't have bodies out there anymore to cut grass. So we did another modification for about five hundred thousand. You start taking care of that and you're talking about pulling out bodies. We're doing another modification right now, and that's what the contractors count on. They know that they're going to get modifications and different requirements.

Our thing is accountability. There is no accountability and that's what we've got to have in government. You know, I'm an American taxpayer the same as everybody else in this room. We don't hold the contractor accountable the same way that government workers are held accountable. If we perform at 65 percent, believe me they're going to hold me accountable. But the contractor is an exception. We've got to get more accountability in the system.

Thank you all for letting me speak.

CHAIRMAN WALKER: Thank you, Mr. Locklin very much. Ms. Meeks.

MS. MEEKS: My name is Mariann Meeks. Like many of the people that have testified today, I have been involved in performing business process reengineering inside and outside of the A-76 process for over 22 years now.

One of things that I have found to be the most beneficial aspect of the A-76 process is the incentive that it provides to the federal work force. I'm not just saying that because my work has been in the Department of Defense. A-76 has been a forcing mechanism for change to occur. Just the threat of an A-76 competition requires or forces people to begin looking at doing the things that they probably should have been doing all along.

As you have said, Mike, a lot of it is the accountability issue. We're not necessarily held accountable for how well we manage our resources. Instead, we are promoted based on the scope

of the activities that we oversee as managers; the number of people that we may supervise; and the total budgetary authority that we have the ability to expand, as opposed to what results I actually get for the resources that I have control over.

A-76 forces people to look at what really needs to be done to implement some of the BPR things that they should have been doing as managers all along. It forces the agencies, including the Department of Defense, to really look at their core missions, and try to identify those core competencies that we need to retain. While at the same time allowing us to look for newer or better ways to do other things that we don't need to retain.

Although I think the A-76 process provides a lot of valuable incentives, I do agree, as most of the people have indicated today, that the process itself does need some revamping. There are five areas that I would like to talk about, although I won't talk about three of them in detail, I would like to talk about two of them specifically. The five areas are: Insufficient numbers of trained and experienced personnel both internal and external to the federal government. These people are needed to conduct business process reengineering, mission definition, and A-76 cost comparisons.

We expend a large amount of effort in doing cost comparisons and related mission identification for business process reengineering. However, we don't have a cadre of federal government employees to maintain this expertise. I think that is a very significant shortfall in our ability to accomplish those sort of activities. In addition, specific expertise is not available to support the A-76 cost comparison efforts, which includes various disciplines to perform the effort.

As Robert indicated earlier, there are a wide variety of activities required to conduct cost comparisons. Those include working with experts from the acquisition community, to the people

that are actually intimately and technically involved with those processes. For example, we don't do a very good job of making sure that we have single acquisition activities from the development of the request for proposal through the evaluation and contract administration.

I have talked to several people that are acquisition professionals, and while they recognize that there are some peculiarities about A-76, I don't think that they have a full understanding of the differences that exist with A-76 acquisitions as opposed to supply acquisitions or even our service acquisitions which are not involved in the public private competition aspect.

Management is not trained and up to speed. Business process reengineering and A-76 specifically are not part of their professional development requirements. I think that causes significant shortfalls and impediments to the conclusion of a successful A-76 process because they are not aware of what their role should be or the requirements needed for specific and dedicated leadership during that process. Additionally, with the number of competitions that are occurring within the federal government today, even external to government employees, there is a significant lack in the number of professionals in the private sector that can support both business process reengineering and A-76 activities in particular. There are a lot of people that come out and tell you that they can provide A-76 or BPR as a service, but in fact when you look at what they have done, they really haven't completed very many of them. And certainly, very few of them have carried it all the way through from strategic perspective to implementation to whatever that final outcome is.

I guess the bottom line is that there just aren't enough trained and experienced people to deal with the volume of demand that's occurring today. Now, does that mean I think we shouldn't do them? No, I don't. I just think there's such an emphasis on

them that we need to consider developing internal expertise at each of the agencies responsible for doing competitions.

Additionally, as many people have discussed earlier, I think that there's a definite need for doing some strategic analysis before cost comparison actually occurs. A lot of people believe that the A-76 process precludes that strategic vision, and I guess I would argue that if you read the introduction to the revised handbook, it very specifically and definitely talks about the need to identify your core competency; to determine those things which need to be performed by federal employees; to identify those things which are severable; and to conduct a cost comparison. We don't do that first however. We rely on the FAIR Act inventories, which are disconnected from an A-76 cost comparison if you look at it in its entirety. So, I think we again need to take a more strategic approach.

Lots of questions and many interpretations of what is meant by inherently governmental. Although it hasn't been raised today, there's lots of discussion provided in previous testimony so I will leave it at that.

There's a significant shortfall and understanding of what best value procurement is all about. While that has been discussed some today, there needs to be a common determination of what we mean by best value as it applies to an A-76 cost comparison. OMB in particular needs to develop what they intend best value procurement to be within the confines of an A-76 cost comparison.

The last area that I would like to talk just a little bit more about is oversight and how the cost comparison occurred up to the point of a final decision. That occurs within the administrative appeals process. I know that there is legislation that has been proposed which would require or allow both government employees and their unions to have standing within the GAO and within the

Federal Court of Appeals Claims. I guess one way that perhaps legislation would not be required is if we extended the scope and the way that the administrative appeal process is conducted.

Currently, the administrative appeal process is very narrow in scope. However, if you read much of the GAO protest language that comes out, a large number of the problems that occur with A-76 comparisons have less to do with how the cost comparison itself is conducted, and more to do with the evaluation of the offers associated with that comparison. I think that by expanding the scope of the things that are allowed to be addressed at the administrative appeal process, government employees and union representatives as well as all the authors that submit proposals during the process, can have the opportunity to identify whatever problem they have to find.

Now, does that mean that I think they should be able to say well, you should have competed in something differently? No, I don't mean that every decision should be challenged, but I currently think that some of the things that are in the acquisition stream certainly should be included in the administrative appeals process in terms of what would be considered a valid appeal.

The other thing that I think is sorely in need of change is the level at which administrative appeals are determined. I think we need to provide some measure of consistency in the oversight of how a department's policies are implemented. Have an administrative appeal authority at the departmental level, so in the case of the Department of Defense it would be the Office of the Secretary of Defense somewhere. Having that occur at that level, the department can insure that there is consistency in the decisions that are made in the evaluations that occurred, and in the implementations of the policy that have been promulgated within that department.

So, while I don't think that these recommendations would fix everything, I do think that they will better serve the American taxpayer and the employees that are involved in a cost comparison, as well as the private sector offers that anticipate a better shot. Thank you.

CHAIRMAN WALKER: Thank you. Questions from the Panel?
Bobby.

PANEL MEMBER HARNAGE: I would like to clear something up. Last year, I had the opportunity to be a guest of the Commanding Officer at Fort Knox. I was very disappointed I didn't see any gold.

(Laughter).

I saw a lot of tanks.

UNIDENTIFIED SPEAKER: Protecting the gold.

(Laughter)

PANEL MEMBER HARNAGE: I was able to see the demonstration of the tank armor and its fire power, and was very impressed not only with the equipment and the training that the fighters received, but their skill. I understood why we did so well in Desert Storm. I was able to go through some of the training area and actually went through a tank assembly. I found out why I wasn't at Desert Storm.

But when we talk about the air conditioning being down, we're not talking about discomfort of the employees. These are very high tech computerized training facilities that have to shut down when the air conditioning is out. Therefore, more or less, everything comes to a standstill. Nobody is getting trained. I didn't realize it, but there were a lot of West Point cadets there too. So, I wanted to make sure everybody knew.

MR. LOCKLIN: That facility you're talking about, Bobby, is shut down; it has been for two weeks. I knew that we were on limited time and I wanted to cover several of those. But that

particular facility has been closed down for two weeks because of the air conditioning outage. They can't run any of that equipment. There are Colonels and Lieutenant Colonels in there for advanced armor training that they had to send back to their installation sites on account of no air conditioning.

Also, we've got problems in medical facilities and other training facilities; same with child care, but I didn't get into all that.

PANEL MEMBER HARNAGE: I wanted to make sure that the Panel didn't think it was just uncomfortable.

MR. LOCKLIN: It wasn't just uncomfortable. It definitely impacted training.

CHAIRMAN WALKER: Well, Mr. Locklin, we are in the performing and accountability business at GAO, and I can assure they will hear you what you had to say. Anything else?

PANEL MEMBER FILTEAU: Not about this but I want to mention something if I might. You seem to be saying that you believe the contractor, which I guess is a joint venture--

MR. LOCKLIN: Yes.

PANEL MEMBER FILTEAU: -- that they deliberately avoided hiring union employees; is that what you're saying?

MR. LOCKLIN: That's a fact. As a matter of fact, there are managers doing it now. There's a certain part of the law that says the employees have a right of first refusal. By us being able to work with the command on the installation, General Bell helped us to get work at the other area that was not under study today. He did some temporary hiring so we were fortunate. It enabled us to place most of our of people.

The contractor is Armor Center Support Services. Our employees put in applications with them and were supposed to be called for interviews. However, a lot of them never got called, so they went over and asked why they didn't get a call. The

contractor bluntly told them that the reason is because we do not want the union here to represent you. So, we're not going to hire you.

You know, I heard the statement of Indianapolis. At their facility, there was an agreement at the beginning that AFGE would represent those people, and that's why things went real smooth and everything worked well. During the appeal process, I wanted to be able to raise several issues in our appeal, because the person who put the bid together for them was a past director of logistics at Fort Knox. That person, was removed as director for certain reasons, and then put over in the DPW side where he had access to all the systems there.

When he left, the federal government vowed to pay Fort Knox back. He put the bid together and had access to certain things. But I could not raise that.

MR. FILTEAU: Let me suggest something to you regarding that kind of targeted anti-union activity, the Department of Labor takes a real dim view of that kind of stuff, and you ought to take that to the Department of Labor if you truly believe that that really happened.

There is a case at Cape Canaveral, a launch support contract, where a contractor pulled that stuff and people ended up with six months worth of back pay and the contractor was forced to hire them all. No responsible contractor would support that kind of behavior. Sometimes contractors get out of control with a parent company because neither one really owns it. So, if you believe the contractor has done that, you ought to pursue that.

The other question I had for you is on the accountability issue. By the way, we didn't bid that particular contract. My experience is that the performance work statement includes loads of methods for performance measurement. I'm sure that this one did too.

MR. LOCKLIN: It did.

PANEL MEMBER FILTEAU: We have a facilities contract at Fort Irwin, which involves tanks, and believe me I know something about them. I can't believe the Army, particularly out of Fort Knox would let a contract without performance measures. Are you saying that they're not enforcing them?

MR. LOCKLIN: I'm saying we're not checking them.

PANEL MEMBER FILTEAU: You are not checking them.

CHAIRMAN WALKER: But isn't it self-evident that they are not meeting the requirements?

MR. LOCKLIN: Yes. Yes.

CHAIRMAN WALKER: That's what I got out of it.

PANEL MEMBER FILTEAU: When did they start transition? Did they start June 1?

MR. LOCKLIN: They had a hundred and fifteen day transition period.

PANEL MEMBER FILTEAU: Prior to June 1?

MR. LOCKLIN: Prior to June 1. And there are other major problems. To work on certain things on an M1 tank, you have to have certain security clearances. Right now, the contract work force only has one person that works on any of our missile sights or anything like that because they do not have security clearances. On this contract, the installation only has three people that can input stuff information into the system, because they hadn't received a security clearance yet. Yet they had a hundred fifteen-day transition and they were supposed to do that.

PANEL MEMBER FILTEAU: So it was 115 days prior to June 1, they're not in transition now.

MR. LOCKLIN: No, no. They took over on June 1 and had a 115-day transition.

CHAIRMAN WALKER: Sounds like the transition didn't go too well. Well, I apologize, but I know that there are several of us that have to catch a flight in order to get back by midnight.

I want to thank all of you, and I want to note that the record will remain open until August 15th. If there are any of you who have testified and want to supplement the record, or if there's any of you who have not had an opportunity and want to get something on the record for the benefit of the Panel to consider, the record will remain open until August 15th.

I want to thank everybody for testifying today and particular thank all the Panel members for sticking with it. I hope to see some of you in San Antonio next week. I think the tenor might be a little bit different.

Thank you.

Whereupon at 5:05 p.m., the Hearing before the Commercial Activities Panel adjourned