

P R O C E E D I N G S

MR. WALKER: My name is Dave Walker, Comptroller General of the United States, head of the General Accounting Office (GAO).

It's my pleasure to welcome you on behalf of the Commercial Activities Panel to this first of what will be a series of public hearings on a very important, complex and controversial topic. I also have the privilege of chairing this panel, which has to undertake a range of responsibilities over the next year.

I think it's important to note at the outset a little background as to why we are here. Section 832 of the Floyd D. Spence National Defense Authorization Act of 2001 mandated that GAO convene a panel of experts to study the policies and procedures governing the transfer of commercial activities for the Federal Government from government personnel to a Federal contractor, including first, procedures for determining whether functions should continue to be performed by government personnel; second, procedures for comparing the cost of performance of government functions of those personnel and cost of performance of subfunctions by Federal contractors; third, implementation by the Department of Defense of the Federal Activities Inventory Reform Act of 1998; and procedures of the Department of Defense for public/private competitions pursuant to the Office of Management and Budget Circular A76.

The panel held its first meeting on May 8 at GAO Headquarters. At that first meeting, the panel agreed in general on the following mission statement, that our objective is to improve the current outsourcing framework and A76 process in manners that reflect a balance among taxpayer interests, government needs, employee rights and contractor concerns.

In addition, part of the mandate of the law was that the chairman shall ensure that all interested parties have the opportunity to submit information on views on the matters being studied by the panel. That is why we are here today. We are here primarily to listen. This, the first of three public hearings designed to meet this requirement; the others will be in Indianapolis on August 8, in San Antonio on August 15; and if necessary, we will have a further hearing.

Details with regard to these hearings as well as the results of this panel session will be posted on GAO's website which is www.gao.gov and there is already a considerable amount of information on that website including a summary of our first meeting.

Today, our focus will be on the general

principles and policies that should be considered by the panel in conjunction with outsourcing. We have a number of very knowledgeable and respected individuals who will be representing a wide range of interests appearing before us today. I am pleased to say that every panel member except for one will be here for at least part of the day today. Kay Coles James has yet to be confirmed as Director of the Office of Personnel Management and as a result, she believes it is inappropriate for her to participate until she is confirmed.

I did have the opportunity to visit with her last week for about an hour and she's very interested in this panel and looks forward to participating with us as soon as she is confirmed. Hopefully that will occur before our next panel meeting, which is scheduled for July 17.

Some members may have to come in and out of this meeting due to various other engagements. Unfortunately, I heard that Colleen Kelley had a colleague who passed away and I know that she has to attend a funeral. Our condolences to your fallen colleague. I know that also Pete Aldridge and Sean O'Keefe will be joining us early this afternoon.

If I can, a few ground rules before we get started. GAO had posted a public notice with regard to this hearing to note that anyone who wished to present views before this panel should advise us by a stated deadline and submit a written statement. I'm pleased to say that all the individuals who met that deadline and that requirement have been accommodated today. We have a very full agenda and we have accommodated everyone who met those requirements.

One of the things we want to try to do today is have some interaction. Given that fact, other than our first panel which we've asked to present up to five minutes of statements, all the other witnesses will be limited to three minutes of oral remarks. We will present your written statements for the record, they will be entered and we will post not only a transcript of this meeting but also those written statements on our website within a few days after this hearing.

Again, this hearing is being transcribed and in that regard, all the panelists have reserved seats. I would ask that when your turn to testify comes, please bring your name tag with you and put it in front of you, that would be of tremendous assistance to the transcriber who has a challenging set of responsibilities today given the many people who will be appearing before us. There will be a one-hour lunch break at about noon and the hearing will end at 3:15 p.m.

Before we get started with our first panel, are

there any questions by the panel members? If not, we are very pleased to have Congressman Abercrombie and John Sweeney, President of the AFL-CIO here with us this morning. We look forward to hearing what you have to say.

Congressman Abercrombie, since you're a client, clients go first. I would appreciate hearing from you.

MR. ABERCROMBIE: Thank you very much, Mr. Walker. I thought you were going alphabetically.

I am pleased to be here with you and the panel members. I want to say initially aloha. I hope you will have an opportunity to come perhaps to Hawaii. I realize that causes great difficulties for any government panel because they get accused of possibly having a good time in the process of learning something.

If you came to Hawaii, you would find yourself among the most dedicated and loyal public servants in the United States. It is the reason why I am here today. This file I have next to me that cannot appear in the transcript but I will tell you right now is inches thick and this is just the one volume I have. It is just the work I have to do as a member of Congress right now dealing with this idiocy called the A76 Program.

I don't understand particularly where the Department of Defense is concerned, we can expect to defend the interests of the United States while attacking one of the primary elements in that defense of the United States, the loyal, civil service, the loyal civilian employees of the United States military. By extension, you can take it to many of the other employees in many of the other agencies that this panel is expected to comment upon by the end of this process.

I work in the Federal building there, I have close contact with the people working in it and all of the various agencies of the Department of Interior because that is the other committee I serve on, the Armed Services Committee and the Resources Committee, working with them to establish a humpback whale sanctuary in the Hawaiian Islands, all of the incredible amount of work that goes into it, the enormous expertise this requires. You simply cannot go out into the so-called private sector and command that kind of expertise, that kind of experience, that kind of loyalty, that kind of deep knowledge. It is not available.

The entire A76 process, particularly where the military is concerned, has become nothing but a money grubbing operation by the private sector trying to get their hands on the money.

I read all of the material associated with this contracting business. It is all a lie. They want the

money. That is the bottom line for them and that is what the bottom line is and when you put the defense of the United States on that kind of level, you are jeopardizing it.

Case in point, the defueling of nuclear submarines, in Pearl Harbor Naval Shipyard, when they tried to decide how they were going to do a comparison with the private sector, do you know what they did? They compared people doing the defueling on the nuclear submarines with people who worked in gas stations because they figured it was fuel, wasn't it? That's the level of idiocy that we have to contend with.

I will admit that I was not fully aware until some of these issues began to be raised by workers out in Hawaii as to the depth of the nonsense associated with A76. Then when you finally point that out, when you finally start making comparisons on wages, that has no relevance or connection whatsoever with the work actually being done, then they bring in the General Accounting Office. Then we go through the whole appeal process.

Even when you have circumstances where the Navy has decided that the people doing the job are the best-qualified people to do the job, make the best presentation, it gets appealed by the contractor. If the contractor is going to appeal it and this comes up in every situation, what is the sense of doing it in the first place? The Navy can't make its own decisions anymore.

I would put to you, Mr. Walker, perhaps you ought to have the General Accounting Office do it all in the first place if you are going to be the final arbiter and it's given to the General Accounting Office to make the decisions.

Logistics people at Schofield Barracks, getting the 25th ready to go to Bosnia or getting ready to go on some other deployment, you can't bring people in off the street and expect them to be able to equip and prepare the 25th or any other division or other command to be able to carry out those operations.

I realize I'm speaking rather intently and the reason is that we are trying to deal with questions of loyalty, experience and quality of service. As a result of my interest in some of these things, I suddenly find myself one afternoon with a whole office full of Pentagon officers, saying to me that they are in charge of efficiency. I asked them, why do we have all these consultants coming in now? Why are all these outside services coming in saying they are going to perform the services and how many of those outside corporations employ retired military people to make these decisions about whether or not there ought to be commercial activity inside

the military?

I asked them, what's your job. Oh, I'm the efficiency guy. What are we paying you for then? Why are we paying people in the Pentagon to be in charge of efficiency when they are contracting all this work out to decide whether something supposedly is efficient or not?

I have not run into a single officer, a single person in command who is able to speak his or her mind to you openly and honestly who is in favor of the A76 system. Every single one of them tells you to your face it destroys morale, it's useless, that it doesn't make any kind of savings and certainly does not advance the mission of the United States of America.

I ask you and I implore you because this is the Commercial Activities Panel, to at least take into account and consideration where the United States military is concerned, the civilian employees of the United States military are an intricate and valuable part of that service, not only to the Nation but to the strategic interests of the country and to the degree and extent that also applies to other agencies of the Federal Government, I hope the same kind of scrutiny will apply.

Thank you very much, Mr. Chairman.

MR. WALKER: Thank you, Congressman.

What I'd like to do is allow you to go, Mr. Sweeney, and we will combine the Q and A if we can. Thank you.

MR. SWEENEY: Mr. Chairman, members of this panel on behalf of the 13 million members of the AFL-CIO, I appreciate the opportunity to join you today to share our views and suggestions regarding the principles that should guide the Federal Government service contracting process.

There are few challenges greater or more important than assuring that the Federal Government has the resources and the capacity it needs to keep the economy growing and the Nation prospering. As we know from many successful public and private ventures, the key component for creating a vibrant, strong and effective organization is to recruit and retain an equally vibrant, strong and effective work force and to establish systems such as labor/management partnerships that tap the combined experience and expertise of all the partners in the enterprise.

Making the investments up front and securing the best workers possible and then continuing to invest in them throughout their careers is the soundest and most cost effective use of taxpayers' dollars. It ensures the

highest quality delivery of public services. All too often today, rather than making the necessary commitment of resources and investments in devising a comprehensive future-oriented work force development plan that includes building and strengthening the Federal work force, the focus is on short term savings by cutting the Federal work force. The regrettable result is a real and growing human capital crisis, propelled in part by excessive downsizing and outsourcing in recent years.

This panel has the opportunity to help stem and reverse that crisis through the recommendations you will make for administration of the Federal Government's outsourcing processes. In our written statement, we discuss several principles we believe should inform these agency procedures and practices. I will touch on them briefly in my remarks today.

The Federal Government should stop excessive downsizing and indiscriminate service contracting; should invest in the Federal work force; and should reinstate labor/management partnerships. The human capital crisis resulting in part from downsizing and service contracting over the last several years has left agencies suffering from critical shortages in key occupations. This crisis will worsen with the future waves of baby boomer retirements.

America's families depend on rank and file Federal employees to provide a myriad of important public services. Consequently, the capacity of the Federal work force is a matter of profound concern for all of us. We can stem and reverse the crisis but only if we stop looking to move the performance of important public services outside and invest instead in restoring and building the capacity of the Federal Government to perform its historic role and mission. Important steps in meeting this challenge include ensuring competitive pay for Federal employees and increasing the Nation's investment in training and skills development. In addition, agencies should work collaboratively with employees, labor/management partnerships tapping into the experience and expertise of those who actually do the work, a key to achieving actual and lasting efficiencies.

We deeply regret that one of the first actions of the Administration was to repeal Executive Order 12871, which provided a strong foundation for Federal sector labor/management partnerships. We urge this panel to recommend resumption of these important labor/management partnerships.

Government agencies should not use arbitrary competition conversion quotas. We are very disturbed about the Administration's apparent decision to place the jobs of at least 425,000 Federal employees at risk over the next

four years, either through direct conversions to contractor performance or public/private competition. The idea that as much as one-fourth of the Federal Government's Executive Branch work force could be outsourced raises grave concerns that under the banner of efficiency, the Nation could well return to a spoils system providing lucrative contracts to serve political or other ends rather than simply to serve the public. While some would undoubtedly win under such a scheme, the Nation overall would lose.

Agencies should broadly define the concept of inherently governmental functions. We urge the panel to recommend against using narrow definitions of inherently governmental functions in determining which functions are suitable for performance by the private sector. Some would argue that any service the private sector is interested in performing is inherently commercial and therefore need not be performed by Federal employees. The panel should emphatically reject that contention.

The Government should bar contracting out of Federal employee jobs unless and until there is full and fair public/private competition. For reasons of efficiency and fairness, Federal employees should always receive real and meaningful opportunities to compete for the opportunity to continue performing their jobs. Converting jobs to contractor performance without public/private competition is bad policy.

Additionally, public/private competition should be just one tool for making service delivery more efficient. Whether called reinvention, reengineering, or reorganization, there is much Federal managers can do on their own to generate efficiencies and even more they can accomplish in partnership with rank and file Federal employees and their union representatives.

The Government should ensure that Federal employees have full and fair opportunities to compete for new work. A contributing factor to the Federal Government's human capital crisis has been the almost systematic refusal to consider in-house performance of new work regardless of how similar it might be to work already being ably performed by Federal employees at the agency in question or at another agency. Federal employees should have the right and the opportunity to compete for newly created work, an approach that would benefit taxpayers as well.

The Government should provide Federal employees full and fair opportunities to compete for work that has previously been outsourced. If real and lasting savings can be achieved from competing the jobs of Federal employees, then real and lasting savings can also be achieved by subjecting contractors to the same degree of public/private competition. To ensure that public/private

competition is not merely a mechanism to replace Federal employees by contractors, Federal employees must also be allowed to compete for work already outsourced.

The Government should accord Federal employees the same legal standing that contractors enjoy to challenge agencies arbitrary service contracting decisions. Contractors but not Federal employees and their union representatives can take agencies to Federal Claims Court and the General Accounting Office to challenge service contracting decisions. Federal employees and their union representatives should have the same right. Putting contractors and Federal employees on the same legal footing is fairer to Federal employees and also improves the integrity of the process overall.

Last, the Government should eliminate the human toll from service contracting. Service contracting often reduces costs by cutting the numbers of public sector jobs that pay reasonably well and provide good benefits and having private sector jobs that pay much less and provide few or no benefits or job security. A recent EPI study found that more than one-tenth of the contractor work force earns poverty level wages. While it is appropriate to compare staffing and procedures during public/private competition, comparative wages and benefits should be excluded from consideration.

Further, to ensure that taxpayer dollars pave a high road of good jobs and good benefits, vigorous Federal enforcement and contractor full compliance with the Service Contract Act is essential. Congress should adopt living wage legislation designed to ensure that all contractors will pay their employees at least an amount necessary to keep them and their families out of poverty.

In closing, nothing is more important to the success of our Nation today and tomorrow than that the Federal Government have the skills, expertise and resources it needs to do its job efficiently and capably. We believe that a well paid, well-trained and well-respected Federal work force is the best insurance the Nation has that its government can really meet this challenge.

Thank you.

MR. WALKER: If I can open it to any questions by panelists of these two first speakers? Stan?

MR. SOLOWAY: Mr. Sweeney, throughout your statement you were suggesting that there has been this fairly seismic shift to service contracting in recent years in place of Federal jobs. Do you have any sort of numbers or statistics that can help us understand that because some of the data we have seen suggests it hasn't been nearly that seismic.

MR. SWEENEY: I can supply some data. I have with me Chris Owens who is our Public Policy Deputy Director. Chris?

MS. OWENS: We have some numbers we can submit for the record but the work force has declined by about 400,000 over the last several years. As you know, the numbers of jobs that have been potentially put at risk for further outsourcing or downsizing is of the same magnitude, about 400,000.

MR. SOLOWAY: I may have misstated the question. You're right, there are a lot of jobs subject to competition. The majority of those folks will either find other jobs in the government or go to work for the contractor. So as for putting jobs at risk, I think the terminology might be a little questionable. I guess the question is the numbers I've seen from the Federal Procurement Data System and so forth suggests we have had about a 20 percent reduction in the Federal work force, 18 to 20 percent. I agree with you in terms of the consequences, that you don't use outsourcing as a tool to downsize it. It's sort of a ludicrous concept but you have about an 18 to 20 percent reduction in the work force but the numbers I've seen suggests we've only seen about a 6 or 8 percent increase in service contracting. So there doesn't seem to be this kind of one for one massive shift to the private sector.

Second, these are not people being put on the street. That's not your suggestion, correct?

MS. OWENS: Right.

MR. SOLOWAY: The other question, Mr. Sweeney, you talked about pay and I know we have an EPI witness coming up. I am interested in the subject because there are two things that strike me. One is we have the Service Contract Act which dictates not only the wages paid by the contractors but the wage grade level. Obviously if someone is in violation of that, that is a problem that needs to be addressed. I don't think anybody would defend that.

There's also been a lot of talk about the pay gap between the Federal, public and private sector and that equivalent private sector jobs traditionally pay more or are paying more in many cases than the Federal Government.

What we're talking about is contracting to companies operating in that marketplace for people. So the two points don't seem to match when you say people are being shifted to the private sector for less money and no benefits which is a violation of the Service Contract Act and also seems contrary to the argument that there is a pay gap which I suspect there is.

MR. SWEENEY: I think some of the examples

Congressman Abercrombie mentioned in his testimony in terms of the expertise and the talents of the individuals who replace public workers and Federal employees such as the defueling experience. People are not necessarily at the same high skill level as the people they are replacing.

MR. ABERCROMBIE: The problem is categories of people that bear no relationship to the work being done. I have not discovered an instance yet where there is a dispute where it wasn't in favor of the people working for the government and the comparison being made didn't add up.

MR. WALKER: Other questions?

MR. HARNAGE: I'd like to ask Mr. Abercrombie, you're one of the senior lawmakers on the Armed Services Committee, so you should have direct knowledge of this. Do you think the result of all the outsourcing that we've done in the last five years has provided any real savings? My concern is also the effect it might be having on our military readiness. What is your opinion of that?

MR. ABERCROMBIE: At a recent hearing in the Armed Services Committee, that same question was asked of various representatives there and we could not get a straight answer, nobody has any answer to it. They don't have it. All these guys sitting in my office, these efficiency experts, they didn't have an answer. They had different guesstimates, then when you compared them one with another, they all came out differently.

As for the question of personnel per se on any given command post, let's say, people say what does cutting the lawn have to do with military operations, that's a commercial activity, we'll farm that out. The person cutting the lawn, he or she is not working for the Commander on that post and it goes up and down the line. They are working for somebody else. An argument about how grass gets cut or not is not the point. The question is, do you have in carrying out the mission of the United States with respect to its national security interests, the people working for the Commander in any given situation? To the degree or extent there is inefficiency in any given command, that falls with the leadership in the military. You have Colonel this and General that, they've all got to have more stars now; I noticed that. That in terms of our Personnel Committee on which I served as the ranking Democrat for two years is something that comes before us all the time. I never had any question from anybody or any observation from anybody coming before our committee, in my office or anywhere else saying they were dissatisfied with the people working for them or that they were anything less than willing to take full responsibility as military leaders for the activities on their command post.

MR. WALKER: Any other questions?

MR. CAMM: Congressman, my understanding is that each of the military services as they have approached A76 has believed they would get savings whether the work is won by the organic or the contract provider and they have made provisions as they conducted the A76 studies believing those savings would come. The studies you're talking about, did they indicate those people in the Armed Services are incorrect, they are poorly informed?

MR. ABERCROMBIE: If you can show me anything in writing let alone justified by statistics or anything else from the military with regard to that, I'd be happy to see it but they have not been able to give it to us. It's not up to me to get those statistics to the degree or extent they can be put together.

There is another element to it. You've devoided the human equation. I guarantee you that you cannot go to Schofield Barracks today and be able to provide for the 25th to be able to deploy to Bosnia or anywhere else as the people in logistics activities and services there can. It can't be done. When you take into account what the actual job description requires and put that against putting a body in a slot, then I think you get an entirely different picture with respect to whether or not efficiencies have occurred. You can always pay people less; the defueling thing is a perfect example.

I don't know of any company that ever bid on the basis that they were going to pay anybody the same kind of benefits as before.

MR. CAMM: As an example, if you look at the Air Force, the Air Force's judgment of what is appropriate for review says that only about 9 percent of their physicians should be open to review for public/private competition for just the reasons you're suggesting. When they go through the lists and indicate we need these skills, we need these skills for deployment, to maintain our military capability, they take out 91 percent of their positions. I guess you've heard that is too high a number?

MR. ABERCROMBIE: No, that's not what I'm suggesting. I'm suggesting the other 9 percent need to be working for the Commander. I've heard of nothing with respect to the mission of the United States that says you contract out the security of the United States. I think everybody from the person cutting the lawn to the Commander of the base or anybody working for the Commander, needs to be working for that Commander, not some outside company.

MR. CAMM: When there is a contractor operating a base, who are they working for?

MR. ABERCROMBIE: They are working for the company.

MR. CAMM: But who is the company working for?

MR. ABERCROMBIE: The company is working for its own interests and will leave the second it no longer feels it is in its interest to make the money.

MR. WALKER: Let me say first at the outset, I don't know anybody who is happy with the current A76 process. As a result, that's a real opportunity for this panel because we ought to be able to come up with a set of recommendations that in the aggregate represent significant forward progress. I don't know anybody who is happy with the current A76 process.

Secondly, Congressman, as you know, one of the things you mentioned was the appeal process which is provided by law and that is within the scope of what we will be looking at.

Mr. Sweeney, I appreciate your specific recommendations, many of which I think are within the scope of this panel, some of which may not be, but nonetheless appreciate your willingness to provide those specific recommendations.

I'd like to thank both of you for an opportunity to provide some information for the record. Thank you for taking time out of your busy schedules to join us.

If we can, let's have Panel No. 2 come forth now. We now have a second panel that has joined us. In the interest of fairness, we'll go in the order that was printed in the schedule.

MS. HILL: If I could speak first, I'd be appreciative.

My name is Catherine Hill, I'm the Study Director at the Institute for Women's Policy Research. I appreciate the opportunity to speak before you today. I apologize for bumping my colleague. I need to make a conference call at 10:00 a.m. on the privatization of social security with Representative Karen Thurman. Normally, we don't get a chance to speak before such important people and not at exactly the same time. I will be available for questions shortly after. I'll come right back so I can answer any questions you may have. I'm sure my colleagues will be able to answer those questions as well.

The Institute for Women's Policy Research is dedicated to informing and stimulating debate on issues of critical importance to women and their families. It may not be immediately obvious to you why privatizing government services is an issue of importance to women but I hope today that my comments will make that clear.

The statistics I cite in my testimony are based on a new IWPR report written by myself, Annette Burnhart and Laura Dresser entitled "Why Privatizing Government Services Would Hurt Women Workers?" I have submitted this as my written testimony to you.

The first question we faced is what is privatization. There's not really one dataset that covers everyone affected by privatization. There is some information on independent contractors, temporary workers, contract employees, but these include many different kinds of employees some of whom are not involved in the formerly public sector function. We took the simple route and simply compared the public and private sectors in terms of wages and benefits and looking at what is the potential impact of privatization.

We used the current population survey, which is the government's monthly household survey of employment and labor markets. With the exception of the analysis on pensions and health care coverage where we used the CPS supplement, we used the merged outgoing rotation group for the statistics I'll cite to you now.

As you know the public sector is a particularly important employer for women. Women are more likely to hold jobs in the public sector, about 17 percent of women are in the public sector compared to 13 percent of male workers. The public sector offered consistently higher wages, including after we did our regression analysis where we controlled for factors like education and experience and occupation and we found that there were significantly higher wages in the public sector.

We also found women's wages in the public sector were closer to men's wages for those with a college degree. That is, the general wage gap still exists, but is narrower. For women with a college degree, women earned 85 cents for every dollar in the public sector compared to 76 cents in the private sector on an hourly wage basis. As you might expect the differences in wages were particularly pronounced among African-Americans and Hispanic workers who face discrimination in the private sector.

In addition to these important differences in wages, there were very substantial differences in-patient and health care coverage. Women and men are much more likely to have health care and pension coverage if they work in the public sector and 72 percent of women in the public sector have a pension plan compared to only 38 percent in the private sector. Among men, 78 percent worked in the public sector have a pension plan compared to only 45 percent in the private, for profit sector.

In terms of health coverage, again, both men and women are more likely to have health insurance if they are

employed in the public sector. Among women, 69 percent have health insurance from their employer compared to 47 percent of employees for private, for-profit companies. Among men, 79 percent of those working in the public sector have health insurance through their employer compared to about 59 percent of those who worked in the private sector.

There is a very substantial gap in pension and health care coverage.

This is a concern not only for individual employees but it is a concern for society as a whole. When companies fail to provide health coverage for their employees, we all pay the price of public assistance for the use of hospitals for non-emergency care for unnecessary illnesses and disability and the productivity losses these entail. When companies fail to offer pensions, we're all going to pay the price in strains on our welfare system for older people, particularly SSI and food stamps. Without pensions, many of these workers are going to end their lives in poverty.

I would like to ask the Commission to consider have we really completed a true cost benefit analysis for the taxpayers or are we just shifting costs. Can companies tell us how we're going to save money performing the same functions government performs. In the aggregate, we know they provide less health care coverage and less pension coverage. Are these individual, private companies willing to open their books and show us where the cost savings come from if they exist? If there are instances of cost savings, let's consider carefully what it means to lower costs for the taxpayers by lowering wages, health coverage and pension coverage. I am not at all convinced that the taxpayer would really like the deal if they knew all the implications.

I'll conclude there.

MR. WALKER: Mr. Adler?

MR. ADLER: My name is Moshe Adler. I'm a Senior Economist at the Fiscal Policy Institute in New York City and I also teach at Columbia University. I've just finished a book called "Why We Have Government Employees: Cleaning the Streets of New York City by Contract during the 19th Century." I would like to share some of my findings with you.

In my research, I discovered that the only reason that government employees would drive buses, clean streets or do many of the other things the government employees do is that contracting out was tried again and again in the 19th Century. As a matter of fact, in New York City, the city charter forbade the city to hire any government employees if the cost would be more than \$250. Again and again, they tried to contract out in the 19th Century and

it failed.

I want to share with you the assessment given by the New York City Committee on Street Cleaning in 1826. This is 175 years ago. "The present system of cleaning the streets by contract will always prove ineffectual inasmuch as the private interest is too frequently at variance with public convenience and therefore, ought to be abandoned." This is what they said about contracting out 175 years ago. Let's see what they said about government employees doing the same job 175 years ago. "The only sure and effectual method will be to have it done on the account of a corporation by public agents appointed for that purpose." Because time is short I cannot give you all the assessments that followed throughout the century but you have them in the statement I submitted.

In 1880, the Committee on the Affairs of Cities of the State Assembly issued a death certificate. It read, "The contract system has been repeatedly tried in all forms and invariably repudiated by the city either on account of dissatisfaction with the work done or of the failure of the contractors to live up to their agreement." That was the end of contracting out in New York City.

Contracting out proved to be a disease and the symptoms were the same in practically all cities. In 1892, the head of the Chicago Board of Health issued the following assessment: "There are few if any redeeming qualities attached to the contract system. No matter what guards are placed around it, the system remains vicious." In 1895, the Mayor of Detroit issued the follow statement, "Most of our troubles can be traced to the temptations which are offered to city officials when franchises are sought by wealthy corporations or contracts are to be let for public works." The question is do we know something today that we did not know then? Can we make it work today? Did we discover something, an invention of some sort that would make it work today the way it didn't work in the past?

Economists today believe that the necessary and sufficient measures for making contracting out competitive are one, U.S. competitive bidding; two, divide the services area into different districts; three, the city should perform the service in one of the districts in order to maintain its capacity to replace a delinquent contractor; four, require performance points; five, use short contract periods; and six, contracts should not be renewed without new competitive bidding. All measures were in effect in 1826.

In conclusion, given this record, this historical record that repeated itself throughout the century, it appears to be that curing government ills with contracting out is like curing anemia by bloodletting.

Thank you.

MR. WALKER: Thank you.

Dr. Paul Light, please?

MR. LIGHT: It's a pleasure to be before you to talk a bit about this issue. I know all the members of the panel pretty well. Nice to see Frank Camm here and Senator Pryor. I had the honor of sitting behind Senator Pryor as a staff member of Governmental Affairs as he went to work on this issue in his career in the Senate and established himself as an intense watchdog of this process, just asking for data. I think to a certain extent our work on the true size of government was an extension of this, a modest extension that puts some traction on the question of how many people work for the Federal Government under contracts, grants and possibly mandates so I think we have good data on how many people work for the Federal Government under contracts and grants. It's an interesting data pool and I'd be glad to talk about it.

My outline has three basic points. One, why A76 should be abolished. I think the first thing this panel could do of use is to say we ought to abolish it and just get on with building something else. I also argue that the FAIR Act should be amended largely because it depends so heavily on A76 terminology. The FAIR Act inventories encourage our leaders to establish arbitrary targets, which is what the Office of Management and Budget has done for outsourcing based on the FAIR Act inventories which is just about the worse way to use FAIR Act that I can imagine.

My advice for the Commercial Activities Panel is fairly simple. One, be bold, think creatively about what we could do instead of A76 to delineate when contracting is of benefit to government and when it is being used to disguise the true size of government. I cut my teeth at the National Academy of Public Administration looking at NASA contracting. That agency was always designed with a surge tank model and there are good reasons to contract out in the Federal Government. We shouldn't make this about denying all contracting out although I do believe in the short run a moratorium on further contracting out until we figure out what we've done to ourselves over the last 12 years might be useful.

Focus on capacities, not head count. I am so concerned about the use of head count as the driver, that we need to somehow reduce the number of Federal employees by x, therefore we should use A76 to do so. That's no good reason to contract out. It's a bad reason and it's arbitrary and often capricious. We see this in the conversion activities within departments right now. Those have a tendency to come back and bite us later.

Third, I am absolutely and totally supportive of any effort to build a capacity-based outsourcing, contracting mechanism that would look at mission-centric questions, work force planning. The Comptroller General knows that we don't have the work force planning systems in place right now to do so; GAO has been arguing for years that we should get them and maybe this is a good opportunity to push forward.

Let me leave it at that and encourage you as you go about your work and if you have any questions for me on how we arrived at our estimates or these opinions, I'd be delighted to answer.

MR. WALKER: Thank you, Paul, for the specific recommendations.

Let me open it for questions by the panel. Bob?

MR. TOBIAS: Professor Light, you quite correctly, I think, are critical of the A76 process, the FAIR Act in the sense of how it's used to drive head counts as opposed to mission capacity and understanding the role of what agencies should do. My sense is that those who enacted the FAIR Act who are of good will, were trying to create some kind of a process to get at what it is you think ought to be done. My question to you is, what ought the substitute be to really enable -- to ensure that a process is used to accomplish the goals you just described?

MR. LIGHT: If you take my estimates, remember these were generated by a single scholar; OMB argues that it can't be done, and has been arguing for some time, but with a handful of small grants, we were able to generate some estimates. If you take the total size of the service contract work force, plus civilian, you have a work force of about 6 million Federal employees either under contract or service contract or in the full-time civil service.

It seems to me that the terms commercially available and inherently governmental are utterly useless today. You could make the argument and I think the Comptroller General does or might -- I won't put words in his mouth -- that it's quite conceivable that a job that is commercially available and not inherently government, should be in government for achievement of the agency's mission. It is quite conceivable that a job that is not commercially available and inherently governmental should be contracted out if it's not mission-centric.

I think we've been struggling for years with the capacity-based or a mission-based workplace planning system. The way to sort jobs between this permanent civil service and quasi-permanent contract work force and we're not going back, we're not going to contract back in lawn mowing services at DOD, that's just not going to happen.

It's politically untenable but for sorting jobs, I think we have to have some system that focuses on what an agency needs to assure accountability to the taxpayer and to do its mission.

That may mean that NASA needs to know how to build a satellite and has to be able to build a satellite, even though satellite construction is commercially available and not inherently governmental but you've got to have that capacity in-house in order to properly monitor the contracts. We have lots of data out there on how poorly Federal agencies are doing right now at monitoring contracts and the different workloads in these acquisition offices.

MR. SOLOWAY: I have a question, two parts, on your wage study. Did you compare in your analysis wages and benefits paid by contractors? We're talking here largely about service contracts, not about full out privatization, complete, uncontrolled shift to a private sector. Did you look at the role of the Service Contract Act, which is a government-mandated wage and benefits level relative to the gender gap or just public versus private. I think that's a critical context for us to look at.

AFGE is making the point repeatedly that there is a gap actually between wages and benefits in the public sector and the private sector going the other way.

MS. HILL: What we looked at is a more general . . .

MR. SOLOWAY: You looked at an aggregate number rather than looking at the category more in the purview of what we're looking at?

MS. HILL: Yes. It would be helpful to get better data on the specific contracts that are being let, but yes, you're right.

MR. SOLOWAY: The point is: they are governed by government-dictated or mandated wages and benefit levels and so forth. I wanted to make sure that wasn't part of the analysis you were doing.

MS. HILL: You're right.

MR. SOLOWAY: Mr. Light, you just used the figure 6 million total and I think what you'd find on this panel, shockingly enough, is violent agreement with your precept that what we need to be doing is looking at the big mission picture as opposed to downsizing and outsourcing being mixed into the same bowl. They really should be very separate decision making and strategic methodologies.

You said in the Washington Post the other day

that there were 5.6 million contractor workers supporting the Federal Government. We've all schooled ourselves on you over the years. You actually use the term 5.6 million jobs generated by government contracts. I wanted to make sure I wasn't misunderstanding, that you didn't mean the trail of job generation, which obviously is a good thing. You're saying there's 5.6 million contractor workers?

MR. LIGHT: Yes, but of the 5.6 million, we estimate 4 million are service contract. I think we set aside sometimes the 1.6 that are producing goods for the Federal Government under procurement contracts for everything from jeeps to computer hardware.

We get into this debate about which jobs we're really talking about. We can also talk about the increasing use by Congress of grant mechanisms for outsourcing. We estimate about 2.6 million and that's growing quickly because Congress has figured out that grants are a radically different and much lighter touch for outsourcing activity.

MR. SOLOWAY: That's primarily universities and nonprofits.

MR. LIGHT: There's a lot of grant activity that isn't universities -- sewage construction, highway construction, you name it. You see it in the transportation field in extreme as Congress has figured out there is, not to be brutally candid, pork in them there hills, the grant activity has risen dramatically. Agencies don't like it particularly because it removes their accountability mechanisms in a way that they do have some hope of with contracts.

MR. SOLOWAY: At some point could you give us some information on how you arrived at that 4 million figure for contract workers?

MR. LIGHT: Absolutely.

MR. SOLOWAY: I think it was the GAO that said 730,000 support contractors at DOD.

MR. LIGHT: It's generated by an input-output model of the U.S. economy and for \$12,000 we can get a pretty good -- \$12,000 isn't anything. If we wanted to count the heads and actually inventory them, as some would argue, it's an incredible paperwork burden on contractors. I'm not sure we need to do that to see the dynamic.

One of the things I'm concerned about as we move forward is that we don't know much of anything at all about this work force. That's the reality. We can tell you the shoe size of Federal employees. The Central Personnel datafile is deep and textured and we know a lot about

career paths; we know very little about the contract worker. Unfortunately we've actually not wanted to know very much. That has been part of the dynamic, that it's none of the Federal Government's business under a performance contract to know how you got the performance. NASA is prohibited, for example, under its performance contract to even ask how workers are hired, benefited and so forth. So we don't know much about this very important dynamic. There's a lot of anecdote. You're right that the contract work force has been shrinking in most categories except for service contracting between 1984 and 1999 which is the two anchor datapoints that we have. We're using the Federal Procurement Data System with all its weaknesses. We estimate the service contract work force went up from about 3.5 million to 4 million, about a 500,000 increase. People put two and two together and say there's circumstantial evidence that the downsizing of 400,000 over here resulted in an increase, upsizing in the jobs of 4 for 1. That's an impossible argument to sustain in any way. We just don't know which jobs left and which arrived.

MR. FILTEAU: I wanted to make an observation to you, Dr. Light. I don't think you can find any responsible contractor who would disagree with you that head count based contracting out is a very bad idea. It really should be based on the core mission of the agency or if it's a company that is outsourcing. You have to decide what your core functions are, keep those in-house and outsource the stuff that's not core. Because something is not core doesn't mean it's not important. It just means it's not the essence of what you do.

I think you would find broad agreement in the contracting community about that. I think you'd also find broad agreement that the A76 process doesn't work very well.

MR. LIGHT: I guess I'd say in this case we have several people in the White House who received their training from some of the Nation's leading business schools who would have been taught that at some point along the way. Unfortunately right now, we have an order from OMB that stands for 5 percent outsourcing of the FAIR Act inventory which has an arbitrary feel to it which is inappropriate to this dynamic. I haven't been shy about saying it, we shouldn't do it that way.

MR. HARNAGE: As Ms. Hill leaves the room, let me express my appreciation for her testimony. I found all three extremely valuable and good testimony. I was going to ask Ms. Hill since she was questioned on the comparison, are you familiar with the Service Contract Act and the fact that it doesn't compare Federal salaries, it compares private sector salaries?

MS. HILL: We did this analysis prior to that.

We would love to get additional information on not only the salaries but on the wages and benefits offered under this contract. I don't believe that benefit information is available but I'd defer to my colleague who would know if information is available.

MR. HARNAGE: Dr. Adler, in your testimony, you seem to be saying that much more competition needs to take place. I was wondering if you're familiar with the fact that regardless of whether we need the numbers or not, the contractor work force for the government is four times as large as the Federal work force itself and over 90 percent of the contracting or outsourcing that takes place, takes place without public/private competition.

We are looking at an A76 process which is a very small percentage of the overall outsourcing that's taking place in the government and gives the impression there's not a lot happening. Were you familiar with those statistics in your study?

MR. ADLER: I think this is a question better directed to Paul Light.

MR. LIGHT: I'm familiar that most of the contracting out in the Federal Government is not A76 driven. The vast majority would not be.

MR. HARNAGE: Are you familiar with the procedure at the Department of the Army trying to make some accounting of the contractor work force?

MR. LIGHT: I have read their materials. I admire their perseverance. I think their data is not accurate. I think it underestimates the total contract work force significantly. I think it's a laborious effort and I disagree with the findings from their study. I think they underestimated by about 300 percent the total work force, the Army analysis. It's a similar procurement data driven, input-output model but I think it was incomplete. I admire it but I don't think it's accurate, as accurate as the methodology that Eagle Eye publishers used with us.

SENATOR PRYOR: Paul, thank you and it's a pleasure to see you again. I was sitting here counting when I started doing some hearings on this issue. It was 21 years ago. I don't think you were there then, I think you were still in grade school at that point.

Paul, I must say in that 21 years or 20 years with regard to looking and watching this issue over this period of time, it has not gotten better, it's gotten worse. Let me tell you what I think has made it worse, not necessarily people in your capacity as writers about it and observers of the scene, but those on my side of the table, and I put myself in the political category still. I think

politicians have made great political capital with very few exceptions on denigrating the people who serve the public.

When we announce for office, we start talking about those bureaucrats, we're going to get rid of those faceless bureaucrats. I notice from Reagan to Bush to Clinton they stand up in the Congress to a joint session and say, look how many of those Federal employees we have run off, look how many we don't have any longer and they beat their chests and say, the Federal work force is smaller than it's ever been.

What they don't tell you is that they are masking the true size of the Federal Government. It's just in another capacity and, in my opinion, is costing us a lot more to perform the same services.

The other thing that really concerns me about this whole issue and I know we're going to get into that later, is the morale of the Federal work force today and the age of the Federal work force. I'm dealing constantly at the Kennedy School with young men and women who come to the school and want to be involved in public service. I would fall off my chair some morning if one of them walked in and said, "Senator Pryor, I'd love to go to work for the Federal Government." It just doesn't happen. It's not happening. We're doing everything we can to demonize the Federal worker and those who serve the public.

I think on our side of the table, on the political side, somehow or other we have to really be aware of what we're doing because I think that's something that has to be faced.

MR. LIGHT: I would say when you left the Senate, the Senate lost an important watchdog on these issues and I have the same conversations with students that you do. When you ask them to raise their hands about how many are going to government, they'll go, "somebody has to do it, I guess I'll go." It's not exactly advertised as a career and the Comptroller General is working this issue. There's an intersection of issues on the table now on Capitol Hill dealing with civil service reform, outsourcing. This is a very important moment in political and historical time to chew on all these issues simultaneously. I applaud this panel for hacking into it.

MR. ADLER: I would like to make a comment about that. The discussion here appears to me to be how to make the contracts work and how to protect government employees, et cetera, but it appears there is a big white elephant here that is totally missing. The fact of the matter is that what is involved with contracting out or was involved in contracting out for 100 years before we got rid of it is corruption. The issue of corruption is something that our government tried to get rid of again and again and tried to

change this law and that law, to do it the right way and not this way but the other way but it didn't work.

Reminding you what they said in 1892, "There are few if any redeeming qualities attached to the contract system. No matter what guards are placed around it, the system remains vicious." This is not one man's opinion; this was the country's opinion. This did not come after deliberation of one week; this came after 100 years.

What is missing in this discussion is centering on this issue, what is wrong with the contract system is incentives. The incentives in the contracting out system are totally different than the incentives in the market system. That must be recognized. This was recognized 100 years ago. We have been there, we have done that, we lost, let's promise we won't do it again.

MR. TOBIAS: I want to make sure that Paul, your definition of mission-centric is consistent with what Mark was saying about core competencies because I think they are different and yet they've been used synonymously. Are they the same or are they different?

MR. LIGHT: I think you start with the process embedded in the Government Performance Results Act where you try to articulate what it is that the agency is to accomplish in its strategic plan. You build off that using the work force planning systems that were suggested under the Act and never implemented that says what we need by way of work force to accomplish the strategic goals of this department.

It's different than a core competency in the sense that core competency is often used and tossed about in the private sector as being a competency you need in case of or that this is toward the mission but it's a broader category. To me, mission-centric is actually that.

What is the mission of the National Highway Safety Administration? What work force does it need in-house versus out of house? What is core to that mission? What is secondary to that mission and what can be outsourced?

MR. FILTEAU: I think that's pretty close. I'm not a big fan of the whole core competency model because I think it obscures more than it elucidates but I would agree with Paul that essentially you have to start with the agency mission and decompose from there. If there are some functions, which can be inherently done more efficiently by a contractor, those are more appropriate things to contract out. If it in some way conflicts with the fundamental mission of the agency, then you shouldn't contract it out.

MR. WALKER: It's clearly a multidimensional and

complex issue. I think a lot of people tend to oversimplify it. It's our job to make sure it doesn't get oversimplified.

MR. CAMM: You mentioned as part of your comments that we should be bold and I think there are many of us who think there is an opportunity there. Could you be more specific? Do you have ideas about what might be useful steps to take?

MR. LIGHT: I did want to follow up. You mean the panel's job is to complexify this?

MR. CAMM: No, it's not to complexify; it's to recognize it's not a simple issue and there are multiple dimensions that have to be addressed in order to effectively deal with it.

MR. LIGHT: I'm just being my playful and encouraging self. I think what you have to do here on the panel maybe right away is have a set of preliminary recommendations that allow you room to build from there. By being bold, I suggest you say let's set aside A76. It does involve a trivial number of jobs in the whole scheme of things. GAO has done some wonderful work showing that nobody uses it or very rarely uses it on the civilian side.

If you constrain yourself to a study of A76, then you're much too narrowly engaged. You might want to start off by saying let's set aside A76; let's agree that it's not working; it can't work in most settings; let's see what we can come up with as a panel from there forward.

By that I mean acknowledge the politics of all this. Start in a sequenced way of saying let's jettison what we've done in the past to see if we can invent something that will be useful in the future. You know probably better than anybody on the panel whether or not the most efficient organization approach has been useful to agencies. Has that been helpful; does that actually improve the performance of agencies through A76? May be that's something we need to do more widely in government than just through the A76 process.

What I'm understanding is that the MEO process is actually fairly useful although burdensome. Maybe you need to sequence out of getting rid of A76 and saying we need to do MEO broadly as part of FAIR or some other activity, jettison what's not useful and move forward. I guess that's what I'm saying. Clear the decks for yourselves to be creative and work outside the constraints that were envisioned on the panel earlier when Congress mandated it.

I don't know.

MR. CAMM: In the work you've done in the last few years, I was wondering, have you seen specific examples

of other processes we might want to take a look at to compare with A76?

MR. LIGHT: I've seen recommendations aplenty for processes and one of the things to do is actually go back to the early 1980s and take a look at some of the work that GAO did on work force planning systems. You look back and say what could we have in place now had we just listened 25 years ago to some of the recommendations following passage of the Civil Service Reform Act. There is some very good material on work force planning systems that I think you could embrace.

MR. WALKER: I think we need to move to the next panel.

Mr. Sawicky, I'm happy to have you at the beginning of the afternoon. I know the traffic can be terrible in Washington. That happens to me as well.

Thank you very much.

Can we have the next panel come up? Welcome. Thank you for taking time from your busy schedules to join us. Can we go in alphabetical order or does anybody have a conflict we need to know about? Mr. Birkhofer, please proceed.

MR. BIRKHOFER: Thank you for allowing us the opportunity to chat briefly with you today on the outsourcing issue. As an executive at Jacobs, my colleagues and I encounter a lot of outsourcing opportunities in both commercial and government sectors. I want to speak about that from the standpoint of the basis for outsourcing that looks best to us.

Fundamentally, we outsource or seek to outsource because we're trying to bring value, trying to bring productivity, innovation and efficiency to all our customers. That is as true for government as it is in the commercial sector.

I would say our core business at Jacobs, provision of professional technical services, is not the core business of the automotive sector, the chemical industry, oil refiners or the pharmaceutical manufacturers. Nor is the provision of the kind of services we offer core to the Department of Energy, NASA or the Department of Defense. We are engaged with each one of these enterprises and many, many more. In each case, we would say that outsourcing is working.

I want to spend the rest of my brief time telling you what I believe it takes to make an effective outsourcing transaction. Let me begin by saying that outsourcing is relationship-based. There is no us versus

them. In both our commercial and government contracting operations, we and our clients consider each as integral parts of an overall team. We provide critical support in design, construction, operations and maintenance related areas.

Our customers are responsible for general, technical and financial management. We share responsibility for performance, for innovation and applying best practices for innovating business systems and processes and the like. We share the risks and rewards inherent in our relationship.

Outsourcing is not about reducing the size of the enterprise, so much as it's about increasing the enterprise's operational efficiency and effectiveness to better serve customers. It may be that the staffing for a given function is appropriate but the skill sets, the organizational structure, the actual location of individuals requires adjustment, for example.

Outsourcing can also be about cost reduction but such reductions may not come about in the near term, especially if the objective of the outsourcing is to generate operational savings to plow back into needed human or physical capital investment.

Advances in automation technology notwithstanding, people are our greatest asset. Effective outsourcing considers people first. Issues of compensation, benefits, needed education and training, especially future career applications and where necessary, outplacement services are critical elements for consideration at the earliest stages of outsourcing.

I would submit to you that in our commercial business, we look at all of those things to effectively accomplish a merger and acquisition. There is no reason why we cannot look at those same things when we're talking about outsourcing.

I want to conclude by saying that when these three critical components -- the effective planning I talked about, the people first approach -- and real performance basing of the kind we're measured against at the activity level in all of our Federal contracts are present, outsourcing can and will be successful.

Again, outsourcing is merely a tool for enterprise management. Its successful application depends on how we in the private sector and those of our counterparts in government apply it effectively.

Thank you.

MR. WALKER: Thank you, Mr. Birkhofer.

Mr. Corbett?

MR. CORBETT: It's a great pleasure to be with you this morning. Thanks for the opportunity to spend a few minutes talking with you about topics of outsourcing.

My CV is in your packet so I won't spend my time sharing with you my background. Instead, what I would like to do is highlight some key learnings from the commercial sector and provide some examples from the commercial sector that you may find valuable as you look at the work ahead of you.

The first point I'd like to make is that as Mr. Sweeney said this morning, outsourcing in the commercial sector is simply nothing more and nothing less than a management tool. It is used along with other tools such as organizational design, technology, financial structures in order to improve the performance of the organization. Outsourcing is not abdicating responsibility. When executives in the commercial sector outsource, they are not saying it is not important and aren't abdicating responsibility for the results. They are making a decision that they can better achieve those results through a relationship with an outside organization than they can by attempting to make those investments internally.

The next point I'd like to quickly make is that these decisions are not made lightly. Most commercial organizations when they outsource are outsourcing in response to very dramatic pressures on their organizations -- regulations, deregulations, competition, changes in financial structures.

To give some quick examples, Nortel and Ericson both recently outsourced most of their manufacturing to companies called Selectron and Flextronics. Decisions made half a world away both in response to the fact that the telecommunications industry in all segments is under enormous pressures and those firms are looking for better ways to allocate their resources and use their capabilities to serve their customers.

A lot of the attention on outsourcing certainly goes to cost and cost savings. I would tell you that when you survey commercial executives, you'll find only about a third of the decisions are made with cost being the primary reason for outsourcing. Other reasons that get cited just as often are focusing the organization's resources on the core of the business and I don't have enough time to engage the core debate in my opening comments but these executives recognize there are certain things they do better than anyone else and if they invest their resources there, they'll serve their customers better and they'll serve their other stakeholders better.

They also do it to gain access to innovation. I just want to offer a quick quote from James Bryan Quinn. I would suggest the panel look at some of the writings of Professor Quinn from Dartmouth. He probably has done the best writings on the topic of outsourcing available. He made a point that no organization can possibly out-innovate all of its competitors, potential competitors, suppliers and external knowledge sources, making outsourcing a necessary tool for access to the innovation of others. That is frequently a very important driver of outsourcing decisions.

To give you some quick examples, in 1999, General Motors outsourced its Northern American payables, receivables and payroll to Arthur Anderson, \$250 billion worth of annual processing work; GM avoided a multimillion dollar software investment by doing that and did achieve some savings and improved the quality of its services. At Microsoft, outsourcing seems the preferred option. If you look at their activities, finance and accounting work is outsourced, most of the product, manufacturing and distribution is outsourced, customer support is outsourced. Microsoft doesn't even maintain its own desktop equipment at its headquarters, realizing being good at designing, developing and marketing software is very different than being good at managing a desktop environment.

The last point I'd like to make is outsourcing actually works for the same reason the free market economy works. Outsourcing services providers specialize in what they do and because of that specialization, they achieve levels of innovation and efficiencies of scale and scope that none of their clients can justify the investment it would take to do it on their own. They then bring those services to market and they win their clients' business because they offer superior solutions. Quite simply, outsourcing works because free markets exist and work.

MR. WALKER: Mr. Lawrence?

MR. LAWRENCE: Thank you for inviting me today. My name is Paul Lawrence and I'm a partner at Price Waterhouse Coopers, one of the world's largest accounting and consulting firms. I have a PhD in Economics and I thought I'd make several quick points.

From a private sector perspective, outsourcing exists as companies seek to identify the skills that make them very effective in the marketplace. They then develop the skills so as to differentiate themselves. Other skills they do not need to differentiate, nor do they increase their effectiveness and as a result, they pay less attention to them.

At Price Waterhouse Coopers, we outsource a lot of our work. We do not maintain our HR benefit systems nor

deal with real estate, nor deal with even our travel systems. Conversely, we take care of outsourcing for other people. We do their financial management, deal with information technology applications, hardware and software and even help them with distance learning.

One of the biggest observations from the private sector is that they've figured out how to manage outsources effectively. They've dealt with service levels agreements, they've figured out the program management skills needed, and I think this is something that troubles the Federal Government.

It's easy to see, in our opinion, that outsourcing is only part of the solution to the human capital crisis. With fewer skills to worry about, it is likely that management will spend more of its time focusing on the skills needed to make an organization effective.

MR. WALKER: Thank you, Mr. Lawrence.

MR. SATAGAJ: Good morning. I came here for many reasons but one, I didn't expect is to tell Senator Pryor, it turns out you're younger than you think because I've been doing this for 23 years, so I've got you beat on this.

One of my missions today is to remind you all that this is also not just about big business, big government and big labor, this is about small business as well. Back in the late 1970s, I helped put together a report from the Office of Advocacy, the first report that I know of that reflected on the impact on the small business community.

This is a very difficult issue and a frustrating one to explain to a small business out there saying, "I can do that job, I want to do that job, why can't I get that job?" Over the years, I was involved with Senator Hayakawa, Senator East, Senator Rudman, Congressman Smith, every one of those bills, I was involved in the drafting of it and working in the private sector and each bill got more complex than the last. Each time it got more difficult to explain to my small businesses what are we doing here, why are we debating this issue? As a result, we find except for the FAIR Act, from our perspective it was just one more complication in the process.

As we go through this, one thing I need to ask you is we have to find a process that is simple enough for small businesses to compete in this process. I can't say I have the magic solution. I certainly tried with all those pieces of legislation.

The next point I want to make is Senator Pryor talked about how we demonize the bureaucracy and we do that. There's no question about it. I'm as guilty of

rhetorical excess as the next guy. We do the same thing a lot of times with businesses, particularly when it comes to wages and benefits. We get caught up a little bit and say this is what they can get from the Federal Government and this is what they get in their business and those rascals are small businesses, the only reason they are getting this business is because they are mistreating their employees.

You have to look in the marketplace. Most small businesses are out there and what they offer in wages and benefits may not be as good as the Federal Government provision but it's darned good in the communities they serve. You'll have a bad apple here and there but by and large that's not true, so keep that in mind.

Finally, I'm a work it out kind of guy. If it was up to me, we'd have a policy of reliance on the private sector, end of discussion. If the private sector can do it, let's allow them to do it. I think I agree with Senator Pryor, we need to get more people into government and they have to be proud to work for the government. To do that, I think we have to identify strongly what those core elements are so they can go to work on that and say, I got the job done I wanted accomplished and let somebody else do the rest of it.

Thank you.

MR. WALKER: Let's open it up for Q&A. Frank?

MR. CAMM: Mr. Corbett and Dr. Lawrence, you both talked about the sorts of benefits the commercial sector has seen in outsourcing. Could you give us some suggestions on the types of changes the government might consider in its sourcing policies to make it easier for the government to realize similar benefits?

MR. CORBETT: I'd offer two perspectives. One is that commercial organizations very successful with outsourcing approach these as strategic decisions driven from fairly high in the organization. They are not looking at this individual doing this job in this location and saying is there someone else who can do this job in this location less expensively and more effectively. They are looking at strategic relationships based on competencies of organizations and that becomes a fundamental driver of how these decisions are made. Who is best in the world at doing these things? I would say that type of top down, strategic analysis is essential.

The second point I'd make, and I think Paul alluded to this also, you have to be able to accommodate a range of relationships. There are going to be some activities which are highly commoditized, very competitive where you can very clearly define down to the infinite detail how that work ought to be done and do you want to

compete that aggressively in the marketplace. There's going to be other things you go to the commercial sector for, and this is what commercial organizations do, where they are looking for more of a strategic partner who is going to bring in expertise, insight and innovation. So you have to be able to accommodate a range of relationships and manage across that range of relationships. Those would be two thoughts I would offer.

MR. LAWRENCE: Certainly the procurement policies have to change. I think Michael describes them aptly. I think the first part is essentially the procurement policies of the Federal Government, which existed I believe to buy commodities in World War II. As problems become more complex and knowledge much greater, the kind of relationships easy to describe are needed so that if one envisions a solution, one could provide it to the government easily. The speed with which that takes I think is blocking and cumbersome. I would advocate speed and understanding of this relationship.

Something else I'd advocate which you probably didn't imagine when you asked that question is I think if it were easier for people to come and work for the government in general for a short period of time. If their systems were portable or whatever, I think a lot more new ideas would make their way into government. Conversely, if government employees could go and spend time in private sector organizations, some of that learning would I think open peoples' eyes to other ways to accomplish things. I think that's a lot of what the private sector corporations are able to draw on, they didn't invent this good idea, someone came and saw it someplace or someone told them about it and they were able to adopt it.

MR. SOLOWAY: We had a question for Mr. Birkhofer and Mr. Satagaj.

Often in this debate, there's a perception left on the table that once something is outsourced from the government, it kind of disappears in a monolithic black hole called industry. Could you talk a bit about how you are or are not and ways we might be held accountable for performance and ways in which that accountability can be improved?

MR. BIRKHOFFER: I'll start. First of all, in most of our contracting with the Federal Government, there is a joint process. I talked about relationship basing, a joint process for defining performance, creating a matrix for that performance, creating measures, creating methods for monitoring the performance and creating the means for recognizing the performance, good or bad. Generally, what is tracked is performance across a range of fields. Some of the more obvious are cost, schedule, quality, safety, technical achievement and innovation would be among those.

In our experience, generally the business of setting performance metrics is a shared business between our government client and ourselves. The business of measuring is the client's responsibility, as is the business of evaluation and recognition. The business of monitoring is constant, both for us and for our government client.

In some cases, we're seeing government clients who have been able to connect their GPRA type performance objectives at the strategic level, down to the work that we do. That is particularly true in the Air Force, less true in NASA but still beginning to happen there. I would generalize from that, at the activity level at least, there is a very high level of accountability for government contractors of my type and it is a pretty reliable accountability system.

MR. SATAGAJ: I think Bill gave as comprehensive an answer as you can get. There is another part of this when you have a private sector guy and that is defined as bankruptcy. It's a great way to eliminate the folks who can't perform and do the job. That's one of the things they're responsible for. They have to survive out there.

You can do all the things Bill said in terms of performance but there is an additional level of accountability out there you'll never capture in the public sector.

MR. FILTEAU: In addition to the question Stan asked, there is an underlying theme in a lot of testimony to the effect contractors are less accountable than government employees. There also seems to be an underlying theme that somehow we achieve cost savings on the backs of the employees. Could any of you give a description of how contractors actually save most of the money on contracts?

MR. LAWRENCE: I'd be happy to give you a general answer. They save money, the ones I know, because they are able to benefit from the cumulative experience of doing something more and more frequently. By understanding the capabilities you're wanting to develop, you understand the skills you need to get very good at so that when the time comes to do something, you're able to bring intense knowledge and experience around the solution. You don't have to learn by trial and error, that took place a while ago. You don't have to figure out how to manage it because you have very experienced people who know how to manage. You don't have to go out and invent new technology because you know it. If you're really good and can have something nobody else has, you can move down the learning curve.

MR. FILTEAU: So it's by process improvement, not just cutting wages?

MR. LAWRENCE: Right.

MR. BIRKHOFFER: Let me also respond. At Jacobs probably close to 70 percent of our business is done with core clients or alliances. The benefit we bring to a government client is the cumulative best practices, business processes, business systems that we learn by being able to sit down with our alliance partners and really work as intensely as we do.

I think Paul made the comment earlier that we have the benefit of being able to infuse that into the relationship we have with our government clients. A government client looking out can't necessarily see all that developing with Dow, Exxon, Mobil or CIGNA but we have the ability to bring that in. That creates real savings.

MR. LAWRENCE: You asked a question about are they accountable? I suspect that government would measure how accountable we are by the number of metrics that are produced. In the private sector, I suspect there are many fewer of those and that may explain why they feel they are less accountable. The conversations tend to be very focused on cost per unit, cycle time service and the like, a very quick conversation and generally if it's not satisfactory, things like we just described happen and if it is, the relationship continues. I suspect it is quality of the conversation, and perhaps the quantity of the conversation.

MR. CORBETT: The advice I tend to give commercial enterprises is when they sit down with an outsourcing service provider, they should see that organization is already doing things they are only thinking about doing and already has on the drawing board and in development things they haven't even considered so the gap between their expertise and the expertise of the organization doing the outsourcing should be very apparent from the beginning. That's where the savings comes from, people processes and technologies built on that expertise.

SENATOR PRYOR: John, update me if you could. Do we have today existing in any law any sort of small business preference or small business set aside to encourage small business into this field?

MR. SATAGAJ: Not specifically relating to the contracting out part, but we have a number of laws, unfortunately probably too many in that regard, regarding preferences for small business and then within small business categories of small business -- minority owned women -- so we do have some and we also have some on subcontracting. We have a whole panoply and it's a nightmare in that regard of trying to track. We have R&D. There is the Small Business Innovation and Research Act. We have a number of those. There are a lot of ways to

track that part. That's a whole other debate for another day.

MR. TOBIAS: I was interested in this dialogue about accountability. I think the critics of contracting out define accountability differently than have the metrics been achieved. Congress defines accountability for political appointees on a broader basis than have the metrics been achieved. It's the whole political process of the delivery and the effectiveness of the agency, not just the metrics.

I would appreciate your comments on the difference in the definition of accountability that took place in this dialogue and the accountability for which agencies are held responsible over time.

MR. BIRKHOFER: When we focus on outsourcing merely to address questions of the size of government, what we sometimes see is a rather indiscriminate and somewhat unforgiving process by which we whittle down core, critical skill sets in government. For example, among the Federal construction agencies, there is some question about whether or not those agencies are or can over time retain the quality of design and construction related contracting professionals effectively to make them a good customer sitting on the other side of the table. That is something you should look at very carefully because there is a point beyond which if that ability the government agency to perform its essential mission -- letting contracts, monitoring that performance, overseeing them properly, conducting all the financial management aspects associated with those -- if that goes away, then the issue of accountability you are addressing comes to the fore and the customer becomes much less attractive for a company like mine to do business with.

MR. FILTEAU: What happens when you don't perform on a contract, any contractor? What is the ultimate accountability?

MR. BIRKHOFER: The first step is we're going to lose fee. The second step is if we accumulate a series of bad performance ratings, we're probably going to lose our competitive edge with that agency and in the most extreme case, we're going to be terminated from our contract.

MR. FILTEAU: What happens when a Federal agency fails? What's the accountability, what's the penalty?

MR. TOBIAS: Every single Federal employee and every political appointee I know fears that because they fear the congressional oversight, the fear the publicity, they fear the arbitrary changes that come about when they don't accomplish their mission. It is quite drastic, quite punishing when agencies don't achieve their objective. All

you have to do is look at some of the hearings we have had over the past few years to see the punishment that agencies have felt by congressional inquiries.

MR. FILTEAU: Is there a demonstrated economic penalty?

MR. WALKER: I don't think we ought to be debating that.

MR. CORBETT: To make the point on accountability and performance, a commercial example. An automobile manufacturer creates a new plant here in the U.S., signs a large IT outsourcing contract with a company we would all know and ties part of their compensation to whether or not the plant makes its production quota. The reason they did that was they did not want the technology company simply making its service levels around the technology. They recognize the technology is only there so the plant will actually produce a certain number of cars it's supposed to produce. So they tied a level of accountability to their business objectives, to the outcomes they're seeking. That's a critical element in getting that sense of connection between the companies you would outsource with and the business objectives you have. I would encourage you to look at ways to connect the suppliers to the agency's mission in a way that goes well beyond simply meeting certain service level objectives that might be written into a contract.

MR. CAMM: The types of commercial practices you talk about involve a lot of interaction between buyer and seller, the use of sophisticated metrics and so forth. Many worry that sort of approach is going to be complicated so that it will exclude certain providers, in particular perhaps small business. Is that a concern to you, Mr. Satagaj? How do the rest of you feel about that?

MR. SATAGAJ: It is. You have to have some measurements and you'll have to deal with that. I think the marketplace dictates some of the checks to not having as many. That's part of the reality. There's no denying that.

MR. LAWRENCE: The learning on this is clear, fewer measures, not more, easier to measure, not harder. The things you're using would be done to describe exactly what you're worried about, blocking and limiting. They would also be done by people who are not skilled in doing the kind of things they are trying to do. I believe there is a body of knowledge that drives us very clearly on how the problems you're worrying about would be avoided.

MR. WALKER: Obviously we have to address a range of issues, including the issue of what are the relevant considerations in determining what should be outsourced and

if so, how it should be outsourced. If there are activities that will be outsourced -- clearly a number already have been -- one of the key questions is monitoring for cost, quality, performance et cetera.

Could you comment on what are some of your views about that because one of the real keys is the government has to have an adequate number of people with skills and knowledge in order to be able to make sure this works. As you mentioned, Mr. Corbett, you can't abdicate. What comments would you have?

MR. CORBETT: In my opinion, you've hit the crux of the issue. You cannot outsource without being able to measure the results. Commercial organizations make a significant investment to make sure they know what the results are that need to be measured, how they're going to measure those results, how they will work with the provider to understand when there are performance gaps, how they are going to be closed, how they will seek continuous improvement. They invest in technologies and systems and management processes to do that.

I think the body of knowledge is probably well out there in terms of how these things are done and how they can be done well.

MR. LAWRENCE: Transparency benefits us all in this area. The more open things are, I believe the less they are prone to claims of favoritism or chicanery that we might be worried about. The numbers often don't lie in terms of why people are better at things than others.

MR. WALKER: There are a number of areas I know GAO has put on its high risk list because there are various agencies that have contracted out certain functions rightly or wrongly but have not retained an adequate number of people with the skills and knowledge necessary in order to perform this important function. I think that's something we can't lose sight of.

One of the debates we have deals with some of the definitions that relate here, activities such as what is inherently governmental. Any comments on what factors, principles or other types of information you think should be considered by this panel in trying to come to grips with that question?

MR. BIRKHOFER: I find that the concept of inherently governmental really is pretty difficult to get your arms around. If I'm dealing with a commercial customer, we're not talking about a function inherently part of that enterprise but something that customer has judged can effectively be outsourced because it is not a contributor to its core mission, making cars or making specialty chemicals or whatever.

From my point of view, it would be much better for agencies in their strategic planning required under GPRA to really look at the variety of functions and activities they have, do some benchmarking with commercial industry and other Federal agencies and get a sense for those things not contributory to its core business and base their outsourcing decisions preliminarily on that rather than taking this broad scope view that leads us down to a debate sometimes less than constructive about what is inherently or not governmental.

MR. SATAGAJ: In a commercial enterprise, someone at the top basically makes a decision, this is what we do well and we're getting the rest out. Essentially that's what we'd like in government. Somebody makes the decision and says this is what we do best, this is what we ought to do best. That's right at the top. You can't have people in the middle trying to decide what it is and somebody on top has to make the decision, whether Congress or the President. I think you make it at any level below that, you'll be debating inherently governmental.

The legislation I worked on over the years, every one progressively got more and more complicated to the point I don't understand it myself anymore.

MR. LAWRENCE: Inherently governmental may be too broad at some level. Perhaps it could be an answer to this question which we see a lot in the private sector, why do we want to do this, why does this organization need to retain these skills? Perhaps the value might be in providing a framework for an answer, that there is a value it yields that everyone would agree upon and be comfortable with the answer.

MR. SOLOWAY: You mentioned something said earlier about the President's directive to outsource 425,000 jobs. I think the order was to compete 425,000 jobs to determine what the proper sourcing would be. That order drives public/private competitions. You heard Mr. Sweeney talk about having public/private competition for every Federal position.

Are there cases or different kinds of jobs, which lend themselves more or less to public/private competition? Is it something not doable? We have to look at A76 and that whole question. As you look at the spectrum of different positions that might be on the table, give us your sense of that question.

MR. BIRKHOFER: There are certain categories of positions that from a market standpoint the government finds very difficult to staff. The whole area of IT is pretty difficult for me to see how there could be effective public/private competitions because market factors are not going to allow those folks to go to government in the first

place. The market itself is an important consideration.

MR. CORBETT: I was thinking from the standpoint of where is the richest vein of service suppliers. Technology, facilities and logistics are clearly areas where there is a rich supply of service providers, back office operations, finance and accounting.

To a certain extent, I would use that as an argument to say to some extent the marketplace has kind of spoken and said these are activities most corporations would view as not being inherently corporate, inherent to what they do and therefore, the marketplace has been drawn forward to supply capabilities in those areas.

MR. LAWRENCE: If you can find it in the yellow pages, chances are somebody can do it. I know there are limitations and I think that defines it.

MR. TOBIAS: I think this issue of inherently governmental is an attempt to deal with an agency's mission. Congress defines an agency mission, agencies then struggle to understand what Congress has tasked them to do and over the years, it gets defined and redefined and so forth.

The issue is not, I don't think, what task can be performed by the private sector cheaper but rather what is the mission the agency has to accomplish and what ought it perform as opposed to contract out. Inherently governmental language has developed in recognition of that idea, that there is something even if it cost five times as much as the private sector could produce, it still ought be done in-house.

In light of that, can you help me from that perspective better identify what is inherently governmental?

MR. CORBETT: What is inherently governmental and inherent to every corporate executive is they are responsible for delivering those results. They have to deliver against the mission, against the customer expectations, against their shareholder expectations. Everything after that is an executive decision in terms of what is the best way to orchestrate, organize, allocate my resources in order to deliver against that mission.

I would encourage a focus that says start with a blank piece of paper, look at customers you are trying to serve, and then build the organization that can best deliver that, drawing from whatever sources are available to do that.

MR. WALKER: Would it be fair to say that many of you are saying this whole area should be a strategic-based

decision based on what is deemed to be core or essential in order to achieve mission and it should not be a cost or number driven exercise, not that cost isn't important, it is but cost is one of many factors presumably to be considered, not the only factor. Is that a fair statement?

[Everyone responds yes.]

MR. WALKER: Is it also fair to say driving the numbers is not necessarily something consistent with the strategic and more comprehensive approach?

[Everyone responds yes.]

SENATOR PRYOR: I've heard it said in the late 1970s that one day President Carter almost as an afterthought turned to his OMB Director, Bert Lance, and said, by the way, when you come by in the morning, bring me a copy of all the government contracts we have. Bert said, okay, Mr. President, I'll stop by and leave them on your desk. The next day he said, Mr. President, I found out something. It would take a fleet of eighteen wheelers to bring in all the contracts.

We had a difficult time for many years of identifying the cost or the dollars being expended in this particular field. Are we where we can identify costs? We know what Federal employees cost say five years ago or ten years ago. Can we tell anywhere in the range of accuracy what contracting out is costing today compared to ten years ago?

MR. CORBETT: We do look at how much commercial organizations spend. Right now the typical large, U.S. company is spending about 7 percent of its revenue on outsourcing.

SENATOR PRYOR: I guess I'm talking about the Federal Government and what we're paying for the contract, and what we're paying out for services?

MR. LAWRENCE: Are you asking us can we talk about the accuracy of the data collection of the Federal Government in the contracting area?

SENATOR PRYOR: That's part of that question.

MR. LAWRENCE: I would not have the expertise to judge that.

SENATOR PRYOR: I don't know who has and that's a 20-year old question. I think that eludes us constantly. I just wondered if you had a feel. John?

MR. SATAGAJ: We haven't made any progress on the question you've been asking for 20 years. That's a

different question in many respects but an important one.

MR. WALKER: We appreciate your time and your contributions.

We're now going to take a break from 10:55 a.m. until 11:10 a.m. and the next panel please be available at 11:10 a.m.

[Recess.]

MR. WALKER: We will reconvene with the next panel, Panel 4. We've made a few adjustments but we're happy to have all four of you here. I understand Ms. Armstrong is first.

MS. ARMSTRONG: My name is Patricia Armstrong. On behalf of the 200,000 managers, executives and supervisors in the Federal Government whose interests are represented by the Federal Managers Association, thank you for allowing us to present our views.

I am a civil servant, I'm a program analyst at the Naval Aerial Assistance Command at Patuxent River Naval Air Station, Maryland. I spent 20 years at the Navy depot at Cherry Point. My statements are my own in my capacity as a member of FMA and do not represent the official views of the Department of Defense or Navy.

FMA applauds the efforts of the Administration to not merely cut Federal jobs but to focus agency attention on how to carry out missions more effectively and efficiently. Performance measurements, goal tracking and insertion of new technology and business practices are vital to success in today's fast-paced market. These cultural changes within the government can only be accomplished with thoughtful interaction between government and industry as your panel represents.

In March of this year, Mr. O'Keefe, directed that agencies compete at least five percent of those jobs considered commercial in nature. FMA applauds Mr. O'Keefe's belief that competition is the best way to find efficiency. Caution to the exercise if commercial activity studies are thought to be the panacea for efficiency savings.

The cost of conducting the actual cost comparison is borne by the activity. These costs are considered unfriendly burdens to the activity. The return on investment is largely lost. Conducting a cost comparison generally takes two to three years and implementing the results, government or contractor, can take another year. Since most activities are dynamic in nature, the study costs generally outweigh the planned benefits.

There are many issues that impact the activity aside from costs such as morale, downgrading of employees, loss of experienced workers and training costs of new employees. As we have witnessed over the past decade, arbitrary reductions, including cutbacks in managerial and leadership positions without mission analysis served to undermine the efficiency and cost effectiveness of government.

If we were serious about integrating a performance-based process that focuses on the strategic management of human capital, we must measure the entire cost of programs, including the current shadow work force of contractors. The FY 2000 defense authorization bill required the Armed Services to complete and publish contractor inventories. Only with an accurate count of contractor jobs and costs can we even begin to assess the cost effectiveness and have the information at hand to consider whether or not it is in the best interest of an agency's mission to outsource a function.

With respect to our national defense, I applaud the efforts of Mr. Harnage and others to maintain the in-house capability for any necessary military requirements. We are still suffering from the effects of BRAC and negative impacts to readiness. We are undergoing a silent BRAC as more work continues to be outsourced. Depot maintenance is not in the budget. Depots account for only 1.4 percent of the FY 2001 defense manpower requirements, 43 percent of depots have already been closed and personnel reductions are over 58 percent. The 20 remaining depots account for only 4 percent of the domestic bases. Any future BRACs should exclude depot maintenance bases.

To obtain the best of both worlds, public and private, both sides should establish and strengthen team relationships. I urge you to look at legislation introduced by Congressman Albert Wynn, H.R. 721, the TRAC Act, to correct longstanding inequities in the contracting out process.

Thank you.

MR. WALKER: Mr. Carr?

MR. CARR: Thank you for the opportunity to appear today to discuss the principles and policies underlying government outsourcing.

My name is John Carr and I am the President of the National Air Traffic Controllers Association and represent over 15,000 air traffic controllers, engineers and other safety-related professionals.

The organization has firsthand experience with government outsourcing and OMB Circular A76. We are

involved in litigation that exemplifies some of the inequities in the contracting process. While I am not here to debate the merits of our case, I will relate to you our experience of how agencies are able to easily circumvent the OMB A76 process.

In 1994, the FAA began contracting out Level 1 air traffic control towers. The National Air Traffic Controllers Association filed a lawsuit in the U.S. District Court asserting among other things that one, the FAA failed to comply with OMB Circular A76; two, the FAA failed to make a determination prior to privatizing these towers whether or not air traffic control in general is an inherently governmental function; and three, the FAA failed to undertake the requisite cost benefit analysis to determine whether contracting out air traffic control facilities is economically justified.

On two occasions, the U.S. District Court held that the FAA violated OMB Circular A76 and the Court has remanded the case to the FAA each time without ordering the privatization program be discontinued. The case is still pending to this day.

OMB Circular A76 establishes a set of mandatory procedures and standards that must be met in order to justify contracting out to a private commercial enterprise. Under these procedures an agency must determine whether the function in question is inherently governmental or commercial in nature.

NATCA believes that air traffic control is so intrinsically linked with the public interest as to constitute an inherently governmental function in accordance with the FAIR Act and OMB Circular A76 and therefore air traffic control services cannot legally be contracted.

In 1994, the FAA circumvented that law. At no time prior to the privatizing of Level 1 towers did the FAA make any determination whether or not air traffic control services constitute a governmental function. In fact, the U.S. District Court has held twice that the FAA failed to make a valid or even rational argument that their privatization program does not involve inherently governmental operations.

The Court noted: "Circular A76 promotes open and democratic governmental systems by requiring agencies to make certain reasoned determinations before privatizing. These requirements are for the agency's benefit and other interested parties in the country at large." The Court further stated, "By committing to nothing, the FAA is free to agree to whatever is most convenient to any given confrontation."

OMB Circular A76 mandates government retention of commercial activities be justified on a cost basis, yet at no time has the FAA undertaken the requisite cost comparison procedures. On two occasions, the FAA has issued itself a waiver under the rationale that effective price competition is available but there is no reasonable chance the government could win that competition.

There is no clear evidence that privatization of air traffic control services results in cost savings to the Federal Government. In fact, the FAA is unable to quantify costs savings at all because they have yet to implement a cost accounting system.

To summarize, FAA has repeatedly failed to satisfy OMB requirements with respect to A76 that are supposed to be done prior to contracting out. Meanwhile, my organization has been tied up in litigation with the agency since 1994 and 131 towers have been privatized. If the Court rules again in favor of NATCA, it will be difficult and costly to reconvert those 131 towers back to the FAA. However, it's worth noting that cost is directly attributable to an agency that undertook to privatize services in plain violation of the law and then engaged in protracted and time-consuming litigation instead of accepting the District Court's two determinations regarding the unlawful nature of the privatization of air traffic control.

That concludes my testimony. I'd be happy to answer questions you may have.

MR. WALKER: Mr. Sawicky?

MR. SAWICKY: My name is Max Sawicky and I'm with the Economic Policy Institute in Washington.

An economist once said students learn all the economics they need as undergraduates and the purpose of graduate study is to convince them what they learned is true. I want to talk about what I think is simple but useful in that vein.

When I look at the way contracting is specified in law and regulations and actually implemented, it seems to me a few areas are basic principles of economics so often invoked and so little adhered to.

I'm not an A76 expert. I've written about contracting in terms of State/local sector, local public schools in a broader, political context. My view of this is there is insufficient oversight of program objectives by Congress and by executive agencies. One indication of this is the lack of data. We could go all the way to the top and note that we don't implement in any serious way an attempt to track the cost of current services and

discretionary programs in the Federal budget. There are issues in terms of complexity around something like that.

As most know, it's simply used as an inflation adjustment. There are ways to get at that if only for purposes of reporting and analysis, which would inform the public debate, but which we have not been pushed to pursue.

Another example is the failure to take more seriously capital budgeting in Federal budgeting decisions. Third, is the lack of available data in terms of the results of programs. A good example is welfare reform. It's remarkable how many documents one can read about the achievements of the temporary assistance for needy families and fail completely to find the word income or the words well being, with or without the hyphen.

In terms of oversight, I think those are the things that are neglected in this process and that filters down to the way contracting is or is not done.

I'd like to take issue slightly with Paul Light's distinction about core missions. It is hard to dispute the idea that you should do whatever your core mission is. From an economic standpoint, it seems to resemble the idea in the definitions of inherently governmental which if it is really important, it should be done by government, not by contractors.

From an economic standpoint, things could be somewhat trivial but nevertheless more economic in the public sector and by the same token, some things could be extremely important but perhaps more efficiently done in the private sector. It seems the principles underlying basic conditions for market effectiveness which we all know are not well observed in the breach in terms of contracting, namely lots of bidders, very clear and transparent information about all parties to the transaction, including compensation of contractors, the ability of government to withdraw from contracting, to have freedom to contract or not, all are woefully lacking in the way contracting is done, notwithstanding the point that these are supposed to underlie the benefits of a competitive market situation.

I hope some things are obvious to everyone and I don't think I've told you much you didn't already know.

Thank you.

MR. WALKER: Mr. Storrs?

MR. STORRS: I'm Gary Storrs with the American Federation of State, County and Municipal Employees.

AFSCME members include State, county and

municipal employees but also employees of various Federal agencies, school districts, public and private hospitals, universities and some private, nonprofit agencies. We're a very diverse union with various constituencies but have strong views on contracting out.

In general, our experience has been that it's far from the cure-all that is frequently claimed by supporters which often rests on shaky assumptions about what the private and public sector do best and frequently ignores very real, sometimes delayed costs of substituting private interests for public ones.

The first set of factors frequently overlooked is the direct effects contracting can have on cost and quality. It has not been a universal success and has often led to large cost overruns, poor performance and a loss of government capacity to deliver the service and a weak governmental bargaining position when the contract is renewed.

Contracting also has significant social costs which also tend to be delayed and sometimes fall outside the entity's budget and are not frequently not properly counted, costs like the impact of lower wages, impact of lower benefits, impact of turnovers that result from those things, all of which may fall down the line or on the budgets of different entities, or the individuals; costs, including the cost of the process itself, developing RFPs, putting services out to bid, choosing contractors and so on; and importantly, monitoring. If monitoring is skimmed on, the government is open to all kinds of problems.

There are costs that even the most rigorous analysis would be hard pressed to identify, the social costs of contracting out programs where the service involves determining eligibility for public programs, national defense issues, a variety of other things that in our view are and always will be inherently governmental, regulating business, enforcing laws, protecting the environment, ensuring air traffic safety, a variety of those things.

It is our view the government can't just steer rather than row, but has to continue to row in order to be able to steer effectively. Nevertheless, if a decision is made to contract out a function, if decision makers come to the view it's not an inherently governmental function or it is something that can be somewhat contracted, our view is the cost comparison needs to be fair, needs to be accurate, needs to be comprehensive, needs to include the types of costs I've outlined rather than a short term, quick fix, skimmed on analysis, in my view.

Cost analysis should consider the impact of privatization on the workers who may lose their jobs, the

morale of the remaining workers, and the agency's ability to provide services.

I'd like to draw attention to an alternative to privatization, public/public partnership rather than public/private partnership. That is something ironically the private sector has developed sort of a high performance work organization paradigm and here we're talking about contracting with the private sector and yet, the public sector seems resistant to bring that innovation into its own operations.

Studies have shown that when workers are treated as assets rather than costs, true and lasting benefits result.

Thank you.

MR. WALKER: Thank you.

Q & A?

MR. SOLOWAY: Ms. Armstrong, in the written submission from FMA, the statement is made "When the government wins a contracting competition, we are periodically audited to determine if we remain the most cost effective provider. Ironically, no similar rule is applied to contractors that win competitions."

I believe I've seen some figures from OMB that suggests that we very rarely audit internal performance of MEOs and so forth when you're dealing with an A76. Certainly contractors, services, and we realize there are issues with large hardware providers, recompetitions, performance requirements, incentives, fees, loss of fees, termination for convenience and so forth.

I'm curious as to what the basis for that statement would be?

MS. ARMSTRONG: I believe the basis of that statement has to do with A76. I believe it states somewhere in there that every three years, I'm not sure of the time frame, if the government wins the contract, they have to be audited. Whether or not that actually occurs, I don't know. I don't believe there is a provision in there that says if the contractor wins, it is required that they be audited.

MR. SOLOWAY: They are routinely recompeted. That's the balancing act.

MS. ARMSTRONG: It's up to the contracting officer to manage that contract and make sure they perform.

MR. SOLOWAY: When a contract is let and one of

your managers or others administering the contract and overseeing it, every submission from the contractor for payment is subject to a variety of receipts and acceptance procedures and so forth to ensure it's a valid invoice and what have you.

At the activity levels, is it fair to say your managers actually know contract by contract what their costs are of those contracts on a regular basis?

MS. ARMSTRONG: I assume so. Contracting is not my field but I would assume they are aware of the costs. I'm assuming if additional services are needed, they have to go out and get additional funds to pay for those. If something comes up that was not in the original contract, they would have to go out and find the money somewhere.

MR. TOBIAS: Mr. Carr, you made a compelling case about how the FAA has not complied with A76 and with the definition of inherently governmental and the impact both on the government in terms of increased cost if you should ultimately be successful.

Do you have any recommendation to this panel on a broader basis about how your experience might be applied to our work, particularly with respect to the definition and application of inherently governmental?

MR. CARR: It is our belief that had the agency complied with OMB Circular A76, in our instance, those towers would not have been contracted out because the provision of air traffic control services is so intrinsically linked with the public interest as to mandate its performance by Federal employees. They would have found we would have competed nicely in any cost comparison.

My experience in this is actually somewhat contrary and what I would offer in terms of advice is if OMB Circular A76 is applied the way it is currently written, and actually used the way it was intended, you will have a better result. It is something agencies can stand up to and would probably withstand scrutiny.

Maybe one of the reasons we are here is a compendium of all the errors under the A76 process of which mine is one.

MR. FILTEAU: I am curious, how did the FAA handle the contingent liability issues? They did contract out some towers?

MR. CARR: 131.

MR. FILTEAU: Did they indemnify the contractors against the risk of being sued if somebody crashes or something like that?

MR. CARR: I believe each individual contractor is responsible for their own indemnification. I'm not positive on that. I can get that for you. There are several small service providers that seem to want the business.

MR. CAMM: Mr. Storrs, you mentioned the notion of using public/public competition. Did you mean that literally, that we might imagine controlled competitions among different government agencies for the same workload?

MR. STORRS: I think I may have misspoken. I meant to say public/public partnership, labor/management cooperation within agencies, not pitting agencies against each other, the concept of labor/management cooperation. I think if you look at the private sector, research over the last 15-20 years has shown the areas that employee involvement is kind of oft spoken fad but a seldom fully realized phenomenon, that research in both private and public sectors actually shows where employees are really empowered is in places where they can pick their own representatives, they can represent their own interest to a certain degree, chief among them jobs, so people aren't being told participate, and five minutes later, being told, now we need fewer of you. It's not rocket science but it boils down to employees being able to represent themselves in seeking common interest with management. It's the type of innovation practiced in the public and private sectors for many years.

There are a lot of places in AFSCME affiliates where the public sector has essentially beaten the private sector or shown it can produce more efficiently or can solve some of the problems that have been identified.

SENATOR PRYOR: Mr. Carr, in the 131 towers being contracted out, what was the justification FAA gave for the privatization of those towers?

MR. CARR: The FAA entered that entire process because they believed it would be cost effective, that they could contract out the services cheaper than they could provide the services themselves, notwithstanding the fact they have no cost accounting system, either then or now, to measure what the actual cost of running those towers is.

SENATOR PRYOR: Did any of the former employees or any of the FAA employees ultimately wind up working for the contractors that won the contracts for the towers?

MR. CARR: The great majority of the employees either retired or were moved to higher level air traffic control facilities and the contractors backfilled behind those employees with their own new hires. Most of the government employees who staffed those towers were moved to other facilities to make room for the contractor and their

facilities.

SENATOR PRYOR: Were the contractor's employees in the towers where it was privatized paid more or less than the employees of FAA?

MR. CARR: They were paid less, clearly paid less.

SENATOR PRYOR: A great deal less?

MR. CARR: The disparity in the contract tower program is that employees are paid less, they pay for their own health and life insurance, they are typically staffing a facility with fewer numbers of employees. Contracting out a service like air traffic control, everything is still provided by the Federal Government. It would be like contracting out this panel, everything would still be here, you just import the people.

There's only two ways to save money in air traffic control, cut staffing or cut training. By and large, our results have shown the contractors cut both.

SENATOR PRYOR: As to the training issue, was the training then provided to the private employees by the Federal Government?

MR. CARR: The training is provided by the contractor with theoretical oversight by the FAA but is a much condensed training program, not nearly as comprehensive. The FAA owns their own academy in Oklahoma City where I was trained where everyone has been trained. The contractors are told the minimum requirements and left to administer it themselves.

MR. WALKER: Stan, then Sean.

MR. SOLOWAY: We have I think a realistic concern about a wage gap between the public and private sector where the private sector is actually more remunerative and has better benefits. You talked about the private sector having mastered the idea of high performance organizations, investing in people and developing human capital.

While I would agree 100 percent that is something the government should be learning from, that's the very private sector isn't it that we're talking about and trying to bring into the government realm? How do we get to a scenario where we have these dramatically lower wages, benefits and so forth when you have laws governing that, a high performance competitive marketplace that governs a lot of that?

MR. STORRS: I think I clarified my point on the partnerships by saying it was a frequently cited fad but

not necessarily practiced widely. I think it is an important private sector innovation, not to say that I characterize the entire private sector as high performance work.

That's an innovation that should be looked at in the private sector but I still think the majority of cases where contracting occurs cannot be accurately characterized as the contract going to a high performance work organization.

MR. SOLOWAY: In terms of wages and benefits, we do have the Service Contract Act and the pay gap that various folks have talked about between the private/public sectors. It's been a big issue as Mr. Sweeney and others referenced. There's been a suggestion by unions and others that there is a wage gap between the public and private sectors. AFGE and others have pointed out that on average for similar positions, there are better benefits and better pay by and large in the public sector. Where does the collapse of wages and benefits come from?

MR. STORRS: It's sort of like the high performance work organization. Neither sector is monolithic. I would say that in the public sector, frequently pay is somewhat comparable between the two but benefits are not as good in the private sector in many cases, especially for members we represent, that includes folks outside of Federal Government as well as inside. Frequently they have benefit packages and civil service protections, various workplace rights that are not accorded to folks in the private sector. It's hard to cost all those things out.

I agree with your point that in some cases, there's a pay gap in the other direction and in some cases, it disfavors our members.

MR. WALKER: I think part of the problem is averages are very misleading. I think it is very dangerous when you deal with averages because by definition you're going to be wrong most of the time.

MR. CAMM: You mentioned if public/private competition were to continue, you'd want to have cost comparisons that were more comprehensive. Could you give some examples of how that process might work better to consider cost more comprehensively?

MR. STORRS: I think one of the things not looked at enough is cost in the out-years. I'm not an expert on the A76 process, so I'm not in a position to give very concrete recommendations but I would say cost analysis should not be a simple comparison of what we think it now costs versus the initial bid but should include estimations of how much monitoring will cost, how much it might cost to

settle disputes with a contractor, how much it might cost to institute a backup plan if the contractor defaults, how much the auditing apparatus might cost.

I can't speak to the specifics about how to go about doing that.

MR. CAMM: Have you seen any processes of this kind that we might examine to get some insight at the State level or anywhere else?

MR. STORRS: There are better States than others I believe but I'm not sure I can name specific examples. One of the underlying themes of our experience throughout the States is that the States don't do it well enough, so it's not that there are necessarily strong cases we can point to, it's that few States if any do it properly.

MR. CAMM: Do you see any States that actually do it in-house, looking long term for cost overruns, wage grade increases and that kind of thing?

MR. STORRS: I think States are constantly trying to modify their personnel systems and so on. I can't speak to specifics. I'm not sure.

MR. HARNAGE: I really appreciate the relationship we have enjoyed with FMA in the past in trying to improve and develop partnerships within the Federal Government. FMA was a very important part of that. I really appreciated the work you did.

There's been a lot of talk about inherently governmental, in-house capability, core work. Why do you think it's very important or what is the important reason that you feel we need to maintain an in-house capability?

MS. ARMSTRONG: I believe maintaining an in-house capability or core work force is important due to cost control and accountability. If Federal managers are going to be accountable and responsible for the outcome of the organization, they need to have control and know what it's going to cost them this year and years ahead. If you outsource too much of your work force, you lose control and the cost can go up.

As far as the core capability within the Department of Defense, particularly with the Navy, we define core as those weapon systems that are part of the Joint Staff scenario for contingency requirements. They aren't every single aircraft in the inventory but they are the numbers that they determine are core. Capability is what we have to maintain to respond to military requirements for those core aircraft and systems.

I think a work force to support that core, the

same as any other Federal agency, relates to their mission from the top level and they should maintain. If you outsource those functions, then you run a risk of not being able to respond at a moment's notice.

MR. HARNAGE: Your comments about contractors being held accountable, you're referring to the fact that almost never once a function is outsourced, on the recompetition is it ever considered to allow the public to compete whether or not it would be performed better and at a less cost to bring it back in-house. Is that the accountability?

MS. ARMSTRONG: From my experience, once it is outsourced, it's never allowed to be competed again with a government work force because that work force has now gone. It's hard to bring it back in-house but there have been some cases. I don't have examples but I've read cases where they have brought it back in-house when it was a failure due to the contract.

MR. HARNAGE: Mr. Storrs, your comments concerning public/public partnerships, were you referring to the capability of one government agency to provide a service to another government agency simply because it has the expertise would be the right way to go or should we outsource it regardless of the cost?

MR. STORRS: I may have misspoken when I raised the concept but I was speaking of public/public partnership as in partnership between management of an agency and employees of an agency, not necessarily from one agency to another.

MR. O'KEEFE: I'd like to invite you to provide any further information for the record and specifically to OMB if you would on how we might be able to help. OPM I'm sure has a deep abiding interest as well. It's an open invitation that you can take the opportunity to pick up on.

MS. Armstrong, I wanted to take you up on your offer to provide an example of the costs you referred to, an anecdote you mentioned that if asked, you'd be happy to repeat, therefore this is the inquiry to take you up on your offer.

MS. ARMSTRONG: The Naval Air Assistance Command has enjoyed success in many of their CA study competitions and the function has remained in-house. You have to use cost in that assessment because a recent example at Cherry Point's Depot is where they competed for their administrative services or secretaries which back when the inventory was put together, management feels that secretaries and those types of support people that handle very confidential information should be inherently governmental type positions but we can't win in everything

so we have to compete things we feel should be in-house.

To make a long story short, Cherry Point did win the administrative services contract and implemented a MEO, about 52 positions that were supposed to be cut to 38. As time goes by and people get other jobs and things change, the result is they are not cutting any numbers of people, they are just downgrading employees. They ended up with secretaries that downgraded from a 6 or 5 to a GS-4, and took jobs in other promotion areas to get out of that area.

You ended up with a work force that was totally mixed up, a lot of bumping and retreating, secretaries that had to go into areas that were a lot different than they were used to. There were retraining and morale problems.

The cost was over \$300,000 and the depot basically eats that cost in overhead because there is not enough congressionally funded money to do a study. You have to bring in a contractor to help do the study, plus take the government work force people and put them on a chain. They're doing that for two or three years doing a study so you have a big impact to an activity trying to do the study. You'll never have a payback of that amount of money.

MR. O'KEEFE: The one thing everybody agrees to is the timing of completion of A76 reviews is excessively long. To the panel members at large, if you'd offer comments on what you think would be the most effective way to shorten this process, that would be welcome.

MS. ARMSTRONG: Within my own division, we are in the process of doing a pilot program, a functionality assessment. Instead of doing a CA study on a group or division, we're doing something called a functionality assessment. That is where you implement your own MEO and do it within house. You set up your own team within house not competing outside. It's all in-house. You look at your function, your mission and try to align the organization to best look at the top one, two, three things you need to accomplish. That's going to be a shorter time frame, starting now and I think it will end by October next year. It could move around people or eliminate jobs; we have people retiring. I think leaving that decision in the hands of Federal managers who are responsible for the outcome is a better idea, faster and less costly.

MR. CARR: As someone who hasn't been a beneficiary of the process yet, I'd like to see it done once. I'm not sure I agree it should be kept in-house though, the FAA being my poster child for how keeping it in-house doesn't necessarily give you the best product in the end. We are not at the end yet, it's still in litigation. Either side could prevail but we've prevailed twice. All indications are that we will again. I guess my belief process would be if you want to shorten it, you're

going to have to put down legitimate time frames and you might consider giving it to someone else. Maybe an agency would have to look inward to a fellow agency. I'm not certain keeping it in-house is prudent. It hasn't worked for us.

MS. ARMSTRONG: There has to be a correct mix of contractors and government employees. At NAVAIR we certainly have our great share of contractor employees we work hand in hand with every day. It takes a manager's decision to determine which jobs should stay and which are best brought in to help teach us the better practices.

MR. SAWICKY: One way to shorten it is to preempt it altogether. I touched on the issue of what was defined as inherently governmental. Paul Light submitted documents pointing out nobody seems to know exactly what that means. I would refer people to Donald Kettle's statement who said almost anything can be contracted or privatized but not everything should be. This idea of inventories leading to some compelling reason to go ahead and contract is not well founded from an economic standpoint, which brings up the labor/management issue. There are case studies of cooperation in the state/local sector some of which we have done and others have done. The advantage of knowing about this is the fact that there is experience to suggest when employees and management sit down and talk about the work to be done and walks through the cost and other details, they can arrive at savings which preempts anything like an A76 or competition process.

The requirements from the standpoint of economics, are very rigorous and reflect an amount of regulation and detail and conceptual difficulty which almost defies implementation and leads one to think that maybe discretion should be vested in managers to decide how to contract and whether to contract providing there is not undue pressure on them to bias their decision in either direction.

Basic point, labor/management discussion can lead to savings which preclude the need for a very complicated competition process.

MR. WALKER: Let me make a comment here. Presumably one of the things we're trying to do as part of this panel is to find ways to maximize the performance of government and assure its accountability, and at the same time, by balancing the various interests I mentioned at the outset that the panel has talked about in connection with our mission.

If you're maximizing performance and assuring accountability that means among other things it's not just economy, it's efficiency, it's effectiveness, and it's a variety of other factors that have to be considered. One

of the things that perplexes me is the concept of MEO, most efficient organization. From an intellectual standpoint, we should be seeking to achieve an MEO in every government agency everywhere. Our objective should be to have the most efficient organization whether it's done by the government or whether it's done by a combination of the government and private sector or done by the private sector with oversight by the government.

Yet, the only place you find this concept of most efficient organization is in the context of where you're thinking about outsourcing, contracting out, privatizing, whatever you want to call it, which to me is somewhat perplexing. Obviously labor/management cooperation can be a means by which through empowerment you can achieve a most efficient organization but it's only one element.

Any comments on the concept of MEO and the fact they were only coming up in the context of the possibility of outsourcing?

MS. ARMSTRONG: I think you're correct that MEO is part of a management function and it's something we all should be doing anyway as a matter of business. The fact agencies haven't done it or maybe some have and we just don't know about it, I know agencies are always realigning, reorganizing, streamlining. Due to personnel ceilings, we're having to do more with fewer people. In many ways, there are success stories out there. I know at the depot they have done a lot with your people, so there are success stories but we don't have them documented and know what they are.

Maybe bringing that to light or putting in some kind of policy the fact that it's required that you continually look for your MEO and document it and show some savings, might be a start.

MR. CAMM: You mentioned in the context of A76 that it's a burden on your overhead to do these studies, you need to bring in a contractor and so forth. When you're doing the sort of MEO you're in the midst of now from the internal side, is it easier to do it in that context? Is it less of a burden and if so, do you have any thoughts about why that might be?

MS. ARMSTRONG: We don't know yet, we're in the beginning stages and I'm not part of that team. The man heading that up is in my building, so I sat down with him a couple of days ago and discussed it. He's in the early stages but I think there will be a small retaining of government employees who are expert to what we do in our division. He did mention there was a retired employee that put together a report I guess as a consultant that basically streamlined or showed all the various functions in the division, what everybody did in each branch, like a

baseline to get started.

I don't know how many resources it will take. I don't believe they are going to hire someone other than that one person that provided that baseline but they are saying it should take a lot less time and be less costly.

MR. CAMM: Is there any way we can get some insight to that? One of the things we will be talking about here is opportunities to streamline this process.

MS. ARMSTRONG: I'd be glad to get some more information for you and provide it, and look in other agencies throughout the government to see if they have any success stories also.

SENATOR PRYOR: Ms. Armstrong, a moment ago, you referenced the workability of the federal employee and the private employee, the contracted employee. If you had a room of 100 workers, employees and 50 of them were private sector and 50 were public or federal employees, and they all had an option of going to any part of the room, having their own computer and desk, would they integrate totally or would there be a segregation, do they talk to each other, do they mingle, is it a good relationship, is there jealousy on one part of the other and I guess I'm getting to the morale factor. Would you comment on that?

MS. ARMSTRONG: From my experience, it depends on where you are and in what part of the country, it depends on different areas of the country, the pay gap may be different, depending on the type of job, it's a lower level job, the pay gap may be more in favor of the Federal work force rather than the private person or vice versa.

Currently, because so many contractors have now come into the work force over the last few years, when it first started there was more of a division, but now that there are so many in the work force, we view each other pretty much on the same level, although as government employees we do have a tendency to protect ourselves from - - sometimes the contractor will try to sell more services and we have to say, we don't really want to spend the money on that right now we need it for something else. We have to be very cautious in how we work with the contractor employees.

SENATOR PRYOR: Does the manager feel the same degree of authority over say the private contractor employee as the manager would feel with the federal employee?

MS. ARMSTRONG: I think they basically give them a statement of work and say "go do it" kind of thing. The contract work force has their own contract supervisor so if a federal manager had a problem with that contractor

employee, they'd work through the contract supervisor. No they don't have the same oversight over those employees as they would their own but there is somewhat a relationship.

MR. WALKER: On behalf of the panel, thank all of you for your time in connection with this panel's activities.

We are going to take a break for lunch. We will reconvene at 1:15 p.m. at the same location.

[Luncheon recess.]

A F T E R N O O N S E S S I O N

MR. WALKER: We will reconvene.

We'd appreciate the next panel members joining us to resume our first public hearing on the Commercial Activities Panel agenda. Let's go with the order it was printed in the agenda which I believe is alphabetical.

Mr. Beeks, would you please start?

MR. BEEKS: I am Ken Beeks, Vice President of BENS, Business Executives for National Security, a national, nonprofit, nonpartisan group of business leaders working to enhance our security by bringing the best practices from the business world to bear on the challenges facing our nation.

If we believe our government's number one objective must be to maintain our national security and a strong national defense, we must be in favor of a strong contracting process, both for goods and services. Our soldiers, sailors, airmen and marines need and deserve modern, best in the world equipment and support. They need and deserve a high quality of life for themselves and their families.

New equipment and better support are going to cost money and there will be adequate debate about where that money will come from. Common sense tells us if we can get better service and save money from activities we are already doing, that's a good place to start.

Contracting for services is already helping the Defense Department and the whole government leverage the technology, the talent and the capital of the private sector to improve the way the young men and women and their families of our armed forces work and live. Most important, it is helping to find the money, much of it now spent on expensive and outdated processes and infrastructure, to pay for some of the new combat equipment.

In the business world the primary reason for outsourcing work has been to sharpen the focus on what a company does best, its core mission. Saving money is an important and desirable but secondary companion goal. There are those who oppose contracting out government work whether through direct outsourcing, strategic sourcing or A76 competitions, they say it does not save money. That is not supported by actual experience, numerous studies or common sense.

Study after study of A76 competitions has shown while the government may not be able to precisely pinpoint the savings, the savings are real, they are significant, at least 20 percent and often much more, and are persistent.

When we know there are real savings to say nothing of the other advantages that lead us to outsource, why would we want to stop just because we can't say exactly what the savings are. The GAO, OMB, CNA, all say the greater savings are there. Are we going to give up those savings just because the government's finance and accounting systems are not up to the task of accurately accounting for them?

Numerous surveys show that our men and women in uniform and the civilian work force that supports them feel best about their jobs and their quality of life when they have the tools to do the missions we give them and their families are happy. That means new equipment that truly is the best in the world and the kind of support in their jobs they have come to expect in their private lives. It means good housing and medical care and good support for their families when they are deployed.

Here again, contracted services have brought improved capabilities for new and better services and have replaced outdated and inefficient business processes with modern, more cost effective ones, all increasing the value provided to our military personnel and their families.

It is also true that a strong contracting process built on open competition serves to increase the public's insight to the workings of their government. A broken or mismanaged one, A76 is a clear example, built on nearly inscrutable rules and subject to many reversals and re-reversals only serves to sow suspicion and doubt about the fairness of all our processes and to corrode the credibility of all our leaders.

A transparent, competitive process serves to reassure everyone. In the business world, if we knew we were delivering better services and products to our customers while saving money, we would expand and improve, not hinder or stop what was working. If we could not account for every dollar, we would fix our accounting systems.

MR. WALKER: Mr. DeMaio?

MR. DeMAIO: Thank you for inviting Reason Public Policy Institute to comment on the important issues this panel is examining relating to federal outsourcing initiatives.

For more than 20 years, RPPI has been actively engaged in the study and promotion of a wide range of government management and performance innovations, with particular emphasis in the areas of outsourcing, contracting and procurement reform.

My testimony reflects my own work on government performance issues as well as RPPI's extensive research base into both successful and failed outsourcing initiatives from Federal, State and local levels of government.

First, understanding the flaws in the current federal processes for outsourcing will assist this panel in articulating new policies and principles. In establishing new principles and revising policies to govern agency decisions on whether a particular government function should be performed by the public or private sector, it is important to understand and recognize the seriously flawed policies and implementation approaches that exist in the current system.

As the panel is aware, these flaws include: [first,] competitions that take years to compete at a high cost per position studied; [second,] contentious disagreement between contractors and unions over the agency outsourcing definitions, decisions and outcomes of competitions; [third,] severe disparities in the categorization of activities. By this I mean a position that one agency has deemed inherently governmental, while the same position is deemed a commercial activity at another agency across the Federal Government. Fourth, inadequate cost accounting systems that make cost comparisons suspect at best and finally, [fifth,] inflexible employee benefit systems that hamper transitions between public and private sectors and unduly penalize federal employees in the process.

Overall, it is our view that the most common flaw in the current system is an overemphasis in using outsourcing to cut costs rather than to use outsourcing to enhance the performance of the agency. This fatal flaw has far reaching impacts on all aspects of the outsourcing process. Until this flaw is remedied, outsourcing initiatives will continue to fall short of expectations.

Outsourcing processes need to evaluate performance. In our research into the differences between outsourcing process deemed failures versus those deemed

successful, I mean the people who actually organized these initiatives at the Federal, State and local government when we surveyed them and asked is this a successful project or a failed one.

Several critical success factors were often seen as important to ensuring the effective management of outsourcing processes and evaluating potential sourcing options. These critical success factors include: [first,] possessing a clear strategic logic. Successful outsourcing projects begin with the establishment of a clear strategic logic for the agency that is clearly cascaded down to performance expectations for every program and function within the agency. At the Federal level this is called the Government Performance and Results Act.

[Second,] reliable financial information. Projects that had adequate and accurate cost information usually had this provided by systems that use activity based costing or other mature accounting practices.

Third, emphasis on redesign and reengineering, that agency leadership aggressively pursued a redesign option allowing agency operations to be reengineered prior to competition. As our research uncovered in many cases, regardless of which side won the competition, the agency emerged better off as a result of its redesign efforts. At the federal level, this is the creation of the MEO.

[Fourth,] performance management: successful projects define and monitor clear measures of performance both during the competition phase and after. These performance measures are vital tools to clarify expectations, ensure value based comparisons and improve accountability and daily management after final contracts are awarded. Assuming these four principles are actively implemented by the agency, the only other ingredient needed is an open, fair and transparent process.

Outsourcing decisions should emphasize performance. It is important to be clear on what should motivate an agency to consider outsourcing. From our research into successful and failed projects, we have found cutting costs was often the primary motivator of failed projects and usually was not the primary motivator of successful projects.

The primary motivators of successful projects included enhancing the focus on the core mission of the agency. [First,] the agency turned to outsourcing to clear the deck of extraneous activities to focus on a limited number of functions that were of the most strategic importance to the agency's mission.

Second, flexibility and speed: the agency wanted just in time access to services and products through a

vendor relationship.

Third, improved quality: the agency determined that outsourcing would improve the performance and quality of the service.

Fourth, access to personnel and skills: the agency found it could not recruit nor retain the necessary human capital to continue providing the service internally or discovered the service was seasonal in nature, making the maintenance of a full-time staff, year around inefficient.

Finally, innovation, the agency determined the internal controls or processes that stifled innovation and created inefficiencies could be avoided by removing the service from the public sector.

Of all the studies into cost we have seen, ample evidence indicates outsourcing usually results in cost savings. At the very minimum, outsourcing provides better performance at contained or in a few cases, slightly higher costs. If we look beyond the often contentious debate over outsourcing, I think you will find unions and employees often agree cost savings can result through outsourcing competitions. All you need to do is look at the MEOs created during these competitions that claim cost savings.

It is important for this panel to understand my point is not to debate cost. Regardless of the debate over cost, I'd like to underscore that agencies went into outsourcing initiatives merely by a desire to cut costs typically were disappointed, both during the competition phase and after. Cost reductions, when they do happen, should be seen as a welcome side benefit rather than the primary motivator.

Performance principles should guide the panel deliberations on commercial activities. From a practical perspective, debating and refining definitions of inherently governmental versus commercial activities may serve little purpose other than to provide fresh ammunition for both sides of outsourcing debates, to impede outsourcing or to keep agencies' feet to the fire.

A more lasting contribution to the debate can be made by this panel if clear performance principles are devised that will help agencies position outsourcing as part of their agency's results act strategic plan.

While RPPI is an advocate of government outsourcing in many areas, we do not blindly endorse outsourcing across the board. Outsourcing is not and should not be seen as an end in itself. It is a tool, one of many, for improving government performance. It is our strong view that agencies must make a clear and compelling

performance case for outsourcing. If such a case cannot be made, then outsourcing should not occur. When the case can be made, we need the systems and processes to allow outsourcing to proceed unencumbered and effectively transition activities, materials and personnel to the new entities providing the service.

Over the past few years, driven mainly by the passage of the landmark Government Performance and Results Act, performance-based government concepts have begun to be implemented in agency systems for operations, budgeting, human resources and even contract management. It is my sincere hope this panel will be credited with beginning the Federal Government's move into a new performance-based era for federal outsourcing.

MR. WALKER: Thank you.

Mr. Engebretson?

MR. ENGBRETSON: My name is Gary Engebretson, President of the Contract Services Association of America. I am also here today on behalf of the Industry Logistics Coalition and the Coalition for Outsourcing and Privatization.

During the height of the Cold War, the Department of Defense had substantial budgets and its weapons systems were essentially defense unique. Not much attention was given to the civilian agencies. All that has changed in the last ten years. Tremendous advances have been made in the commercial sector. No longer is the government on the leading edge but rather it is the private sector with the government lagging far behind.

Recognizing this, Congress enacted a series of important acquisition reform initiatives. These have contributed to a more functional, effective acquisition process allowing greater reliance on the private sector for the goods and services the government needs while strengthening the national industrial base.

Reforms like best value procurement and performance based contracting have changed both the practical and philosophical foundation of federal contracting. Today the issues of outsourcing and privatization are among the most prominent and important issues facing the Federal Government. Applying the lessons learned from acquisition reform will lead us to a more aggressive and comprehensive policy of competing commercial activities currently performed by the government agencies. Certainly how and where competitions are conducted remains a key acquisition reform issue.

We are not advocating that all government services be contracted to the private sector but as we

continue to reinvent the government, we must refocus on competition. This requires a balanced, responsible and unyielding commitment to exploring new ideas, challenging old prejudices, looking carefully at not only what service government must provide but also at who inside or outside of government is in the best position to provide each service in the most efficient and effective way.

It must be a fair process designed to protect the interest of the taxpayer, address the legitimate concerns of the government work force while ensuring that the government operates in a maximally efficient, competitive manner in partnership with the private sector.

Competition in the outsourcing of non-core missions lies at the heart of contemporary management, but it remains sorely underutilized and faces formidable barriers within the government. Yes, if we are serious about enhancing the efficiencies and reducing the cost of government, we cannot ignore the potential offered by increased competition for the provision of government services. Nor can we afford to continue to tolerate the artificial barriers to that competition, barriers too often erected by parochial interests and so contrary to the real interest of the American taxpayer.

Unfortunately, much of what we do is constrained by the OMB Circular A76, a process established in an era where cost was the principal award determinant for all competitions. However, in today's era the best value procurements which recognize that cost is one of many important factors to ensure the taxpayers interests are best served, the old A76 cost based decision tree is no longer valid.

I have submitted for the record a listing of existing policy guidance and statutes that require review and revision and/or repeal to ensure fair and uniform implementation of future, competitive outsourcing and privatization initiatives.

I would like to outline a few key specific recommendations. One: the need for governmentwide commercial activities policy. The Nation is best served by implementing a policy that is suited to emerging the 21st Century requirements and based on commercial practices as defined in recent acquisition reform initiatives.

Two: mandate independent government estimates. Next to a good specification, there's nothing more critical to the evaluation of offers, public or private, than a competent, thorough and responsible independent government estimate, an IGE of the manpower and non-labor resources needed to successfully perform the specified work with minimum risk of unsatisfactory performance. A responsible IGE should be derived from a thorough work breakdown

structure estimate that is zero based and which reflects the appreciation of the modern commercial practices.

Three: the increased level for exempt activities from ten FTEs to 100 FTEs. This will increase the flexibility for agencies wishing to pursue different options under A76.

Four: provide for the efficient, fair and full implementation of the FAIR Act and reconsider the exemptions for the DOD depots from this legislation. Congress intended the FAIR Act's provisions to have broad and continuing coverage over all agencies and all methods available to the Federal Government for managing its procurement of commercial activities.

We have an extraordinary opportunity to put momentum behind a policy that first initiated by President Eisenhower but which today remains largely ignored, the ability of Federal agencies to meet the tough budgetary and mission targets that Congress has set for them hinges in large part on the ability of Congress and the American public to know how agencies are using their resources to meet their core missions and ensuring that scarce resources are used most efficiently.

MR. WALKER: Mr. Miller?

MR. MILLER: Thank for allowing me to testify today on behalf of the Information Technology Association of America and the more than 500 companies including the leading IT service providers to the Federal Government. I want to commend the members of the panel for taking on this important task of assessing the Federal policies and procedures on outsourcing.

ITA notes that in the private sector, the overwhelming trend is to outsource information technology functions from the earliest design to operations and maintenance. Digital Planet, a study of world spending on information and communications technology by the World Information and Technology Services Alliance and IDC reports that between 1992 and 1999 global spending for external IT services increased from \$184 billion to \$347 billion, an 89 percent increase.

At the same time, that same eight year time period in the commercial sector, internal IT support rose from \$303 billion to \$325 billion, a 7 percent increase, effectively flat. This means in the private sector, more and more companies are turning to outsourcing their IT functions. That enables them to attain enhanced service and end to end solutions offered by companies operating in a very competitive marketplace.

In contrast, Federal agencies are often prevented from

taking advantage of the state of the art IT solutions even in non-core areas because they are constrained to use the public/private competition process.

We support the broad policy goals of A76. However, it's implementation, particularly in the areas of measuring only costs and not outcomes is what we believe this panel should seriously reexamine and review. Let me offer some specific recommendations. We have provided more detailed comments to the GAO already.

The private/public competitions basically are barriers, currently, because they only focus on costs and not best values such as improved performance or better service. Therefore, ITA believes that public competition should not be the preferred approach for any opportunity for which best value is sought. In fact, we recommend that information technology services should be exempted from public/private competition requirements altogether in order to encourage governments to seek a fresh look at the government IT needs and give them greater necessary flexibility.

If all a government agency is trying to do is four-lane the current cow path, maybe it makes sense to continue current practices, but if they really are reexamining their mission, then simply looking at cost is not the way to go. A good example of this is the Army Wholesale Logistics Modernization Program. The Army waived the A76 process after reviewing its goals and that goal was fundamentally to transform its operations into a commercial-like logistics systems. The Army's current employees did not have the totally different skills and technology needed so that an A76 comparison would have been apples to oranges.

As I mentioned, we recommend that IT should be exempted from A76 but if the panel decides not to go that far, we still believe it's important the panel recommends best value and not just low cost as the way to go. This issue has been covered by several other panelists, so I won't go into great detail. We believe best value is the way the commercial sector goes and there are ways to do it objectively and transparently and this should not be a barrier to having this type of competition.

I would be remiss not to mention the human capital crisis. ITA's own annual survey of federal CIOs documents the federal IT work force is a priority in recent years. Federal CIOs, this year we surveyed 37 CIOs, point to an aging work force where in the next several years 30 percent or more will be eligible to retire according to the Office of Personnel Management. Compounding this problem is the difficulties many agencies are having in recruiting and retaining junior staff where the government is frequently at a disadvantage with the commercial sector in

terms of pay, benefits and stock options which are not real good in the government these days.

ITA believes that using private sector resources for information technology needs could help address the Federal Government's human capital crisis. Therefore, ITA recommends the panel look closely at how government agencies can partner with the commercial IT companies to achieve the right mix of skilled personnel to carry out government missions.

In summary, ITA and its members believe federal outsourcing of IT programs to the private sector which is what the commercial sector is doing, can provide great value to government agencies bringing faster, state of the art solutions while alleviating the concerns of CIOs and other about the shrinking government IT work force.

We also believe the American public and taxpayers' best interest should remain in the forefront when the panel decides on the course of action.

MR. WALKER: Panelist questions, Bob first and then Frank.

MR. TOBIAS: Mr. Beeks, I note from your statement that you're very interested in and support the A76 process but this panel has been presented with information that only about 2 percent of the DOD decisions about outsourcing use the A76 process. What recommendations would you have to the panel to expand the usage of A76?

MR. BEEKS: We do support the A76 process to the extent we think it is a valuable tool. We've recommended it in our commission work that it be reformed and that we find alternatives to that process where we can. We think the Logistics Modernization Program was a perfect example, the Navy-Marine Corps Internet Program was another where there was an alternative path to do an A76 that makes sense. The A76 process as it is today is too cumbersome, its rules are nearly inscrutable and takes too long.

Our recommendation would be some of the same things you've heard here today, make it more performance based, make it a much shorter time frame. We think no major company would ever take three to four years to make the kind of decisions that are made in your average A76 competition.

MR. TOBIAS: I'm kind of confused because in your statement you say we must be in favor of a strong, improved A76 process.

MR. BEEKS: Absolutely. The process has to be improved, no doubt about it.

MR. CAMM: Mr. Miller, you talked about the growth of IT in the commercial sector. We've all heard stories like the one you tell. One concern we often hear in the government setting is to buy the kinds of services you're talking about, you need to be a sophisticated buyer, so there is concern that in the government setting, we need some way of creating the skills in the government that can do the sorts of IT things you're talking about to act as good buyers. Does that makes sense to you and how does that compare with what you've seen in the commercial world.

MR. MILLER: I would support that position 100 percent. I think you do need absolutely top-notch CIOs and others who can evaluate the kinds of options they have from the commercial sector and decide which ones make sense to go with the commercial sector.

Generally, ITA has been very supportive of promoting what used to be the MIS Director to the CIO level. We believe that position needs to continue to be elevated in the government. ITA has called for the government to create a Federal CIO, not to replace the agency-by-agency CIOs but to help get through some of the stovepipe mentality, to help give it general overview. That would be the vision you find in most commercial companies where they downsize frequently or level off their internal MIS departments but put more sophisticated procurement people, assessment people in place so once they decide to make those outsourcing decisions in their IT functions, they have the best evaluation team possible, not only the evaluation team to make the initial decision but on an ongoing basis to manage and audit those contracts.

MR. CAMM: Do they grow those people themselves or do they hire them in laterally? Where do they get that talent to do that?

MR. MILLER: It's a mixture. Some firms tend to use outside consulting firms to provide expertise because there are firms that specialize in areas so they bring in a third party. Some companies insist on maintaining their own departments and agencies internally. Magazines like CIO Magazine tend to rank CIOs, the best of the CIOs.

When you look at their rankings and see which companies, organizations and CIOs get the highest rankings it tends to be companies doing a combination of both. They put very sophisticated people in place to be the CIO but also use outside consultants.

We had a panel at a conference about a year and a half ago and we had four CIOs from major corporations, and the panel was chaired by the publisher of CIO Magazine. He asked three, four, or five years ago, what was most important, the technical expertise or the CIO or the business expertise? They said four or five years ago, it

would have been the technical expertise, maybe 60 percent and 40 percent business. He said what about now? They said now about 80 percent business and about 20 percent technical. They really--the MIS directors--need to have some understanding of technology issues but did not need to be the traditional computer geeks; they need to be people who understood business decisions because that's what they were doing in terms of their internal organization and evaluating those contractors they were bringing in to do most of the IT work.

MR. SOLOWAY: Mr. DeMaio, you talked about cost accounting and the inability of government to identify costs that there is a difficulty if not an impossibility of tagging costs specifically and getting to an activity based costing level.

Does that apply as well to their contracts or is this an internal government cost you're talking about, they don't know the cost of their contracts or they don't know the cost of their internal operations?

MR. DeMAIO: Primarily, it's their operations. Not to get into the debate about can you with precision calculate the internal cost versus the contractor bid, but that cost is not the primary motivator of successful projects. They are turning to the other benefits of outsourcing in addition to costs when they're looking at why should we go down this road. That's the important thing we need to look at.

At present, we do not have mature cost accounting systems in the Federal Government and many State and local governments to provide accurate cost information for the operations and to use that as a comparison.

MR. SOLOWAY: Mr. Beeks, there was discussion earlier today about the impact of outsourcing on national security and readiness. BENS has testified and written a lot about that issue. Could you address the comments made earlier that outsourcing that places national security and readiness at severe risk?

MR. BEEKS: It's probably the other way around. If we stopped outsourcing altogether, then our readiness would be in a free fall. We already rely so heavily on outsourced technologies, outsourced talent that we literally couldn't function without it anymore. That goes for readiness across the board, for all the kinds of goods and services we enjoy on our bases today. I would disagree with that statement.

MR. FILTEAU: A recurring theme in all of our discussions has been it's pretty well known that when you do an A76 procurement, whether or not it goes to the MEO, the government still gets the savings. Presumably the most

efficient government organization is pretty efficient because they win 58 percent of the time.

Can you offer insight based on your study of successful and unsuccessful outsourcing, why more government agencies don't self generate MEOs without the A76 pressure?

MR. DeMAIO: It's human nature not to want to go through the redesign process, to face competition. I think that's a challenge. I don't think that federal employees see a whole lot of incentives in the whole process. I think that's a critical issue this panel needs to address, how do you incentivize the process to provide more rewards to agency leadership and employees when they go through the reexamination of their processes.

I think it's mainly a combination of human error and the fact we have very poor incentives in the Federal Government right now to take a look at agency operations from a performance standpoint and redesign it.

Peter Drucker asked a very good question that he says every successful organization meets and that is if we weren't already doing this today, would we start doing it tomorrow and successful CEOs come in every day and ask that, not only about what products are we making but the processes we're using to deliver those products. That's a question rarely asked in the Federal Government. We rarely look at redesign of operations.

One of the side benefits of A76 has been the business process reengineering benefit of going through the examination and thinking of new ways of doing that. A lot is scary to employees of any organization, particularly in the Federal Government when there are not many incentives to do that.

MR. WALKER: I've generally found over the years that you have to have three factors in order to maximize performance and ensure the accountability of any enterprise and that is you need the right incentives, adequate transparency, appropriate accountability mechanisms and they need to be focused on results which is defined as performance. Performance is a combination of economy, efficiency and effectiveness, not just one, but a portfolio of things you have to look at.

We've heard about the fact that when there are MEOs in the context of the public/private competition, whether the work is outsourced or not, the government and the taxpayers quite frequently attain some savings because of that competition. What's the source of most of that savings? Is it outdated processes, elimination of hierarchy, leveraging of technology? Do you have any sense as to what is the source of that savings?

MR. ENGBRETSON: I'd say it's all of the above, every part of it. You have to look at the techniques of industry today; they are more innovative and do more things today that the government doesn't have the funds or capability to do. That becomes a big factor in this process.

When you do realize an MEO also reduces its work force, there's savings because of less personnel doing that particular project. All that is a factor in the process.

MR. DeMAIO: A concern this panel should address is you do have those redesign savings, even if the employees win, you still have those savings through business process reengineering. What are the costs to go through the study? You're looking at the cost per position study and the amount of time it takes. Those two have to be balanced. So if we are going to take advantage of these redesign benefits, the savings and efficiencies by going through the process of redesign, let's not lose them in having an arcane, cumbersome process to get to that point because that doesn't do the taxpayer well. We have to look at both the competition process as well as the savings after the competition.

MR. WALKER: To effectuate MEOs without competition there is a cultural issue associated which doesn't just exist in the government; it exists in the private sector as well and the change is difficult for everyone concerned. Are there barriers within current law or policy you can point to that serve other than cultural issues, serve to impede the ability of organizations to try to transform themselves absent A76?

MR. MILLER: Government is much more difficult to change than the private sector. You have lots of boards of directors, the GAO, the Congress, government agencies, the Washington Post and there are lots of risks involved with change. There are also risks involved in the private sector but usually we have something called a CEO and a board of directors and he or she takes the heat. Sometimes they succeed, sometimes they fail, the market measures them and the shareholders and board of directors make decisions on the future.

I think it's inherently much more difficult to get changes in the government. I was recently criticized when someone asked me the difference between people working in dot coms and people working in government. I made a metaphor that it's like going from bungee jumping to playing bocce. It's not to say that people in government and the private sector are not equally qualified--they are--but it depends on what kind of risk-taker you are.

I think people in the private sector frequently have to be

bungee jumpers, you have to make some tough decisions and realize sometimes it may not bounce back, whereas a lot of people in government, there is a tendency not to be very much of a risk-taker because of all the second-guessing and getting revisited by a whole group of people. You can do something you think is the right thing to do and next thing you know, Congress is holding a hearing or GAO has done a study. Do people want to risk all that? The answer frequently is no.

MR. WALKER: Might there also be a difference in how you measure success? In the private sector, the measures for success tend to be a lot more universal, a lot more market-based, bottom line ROI, shareholder value which is understandable in the private sector; but isn't it fair to say the government is a lot more complex and might be somewhat more difficult to measure success and define success differently?

MR. DeMAIO: I think this is the fault where agencies are now turning towards the balanced scorecard. Inherently a private sector model is that the private sector has one up on government in the results revolution in that their outcomes are predefined, the measurements pretty much preexist. In government, we deal with social change, the achievement of missions, outcomes that are hard to measure that take several years if not decades to measure.

If you're going to have good, performance based service contracting, good outsourcing in A76, it requires the agency leadership establish a clear, strategic plan with good measures that track outcomes and intermediate measures tied to the program structure of the agency.

When you're talking about A76, you're talking about something at the very bottom of this entire pyramid that needs to be constructed to have a rational process for outsourcing. A lot of times there's ill service by senior management of the agency because they don't have a sharp strategic plan, the plan is not cascaded down to their performance plan and has no bearing whatsoever on their annual budget requests. There are a number of factors, all process driven, that must come together. Some of it is the appropriations process and the budget submissions but do you have a good strategic plan for your agency, good measures of performance in place and then how does that become the foundation and impetus for outsourcing decisions and competition.

MR. MILLER: I wouldn't totally agree with your assessment, Mr. Walker. There are a lot of functions that government performs where it is pretty clear they could be more efficient. Do I want to stand in line for four hours at the Virginia DMV to renew my driver's license, do I want to sit at my desktop computer and renew it on-line in ten

minutes? I did the latter recently instead of standing in line for four hours.

I think people who have differing views on contracting out would still agree that delivery of service to citizens can be dramatically improved. Whether that means you contract it out is a different issue but even though you don't have the traditional market forces measuring, there are a lot of governmental functions that we do know what performance improvement means. You can set those out as specific goals and try to achieve them.

MR. ENGEBRETSON: Mr. Walker, I believe you did say other than the cultural issues, and I don't think you should have said cultural issues because you can streamline the A76 policy all you want and if the cultural issues are still there, it won't work. So you do have some training that is necessary of government managers and government leaders.

MR. BEEKS: We are talking about commercial activities and for the most part, there are benchmarks from other private industries that can be used to provide adequate performance measures and we should get on with that.

MR. CAMM: Mr. DeMaio, you said earlier it's going to be important to make sure any process remains open, fair, and transparent. I think that's something we all agree with.

When people look at the current A76 process and look at the cumbersomeness of it, people will say it's cumbersome because we need to do these things to keep them transparent, open and so forth. In the processes you've looked at in other State and local governments, have you seen processes that achieve these goals but are less cumbersome and in what way do they differ from A76?

MR. DeMAIO: I would go outside the United States to New Zealand and Australia and a lot of reforms they have implemented. Some of the most important factors in those government moves toward promoting more competitive government have been the redesign of their financial management systems. New Zealand moved towards accrual accounting. In visiting with Ambassador John Woods, he tells this story about how he was sent a bill for a painting in this office. He said when I saw they were going to charge me money for that piece of equipment, I called Sotheby's and the next day it was gone. I've now been able to use those resources I would have had to pay in other ways to achieve the mission results of the Embassy.

In the education realm, they used to maintain public housing for teachers in New Zealand. The director of the Education Department got a bill for the cost of

those housing units and the maintenance for those units each year. Suddenly, during a housing shortage, they got rid of about 1,500 of the housing units.

Sometimes the medium does make the message and it's how do we have financial management systems here in the U.S.--what are the processes for budgeting and appropriations and accounting? I think we need to be looking at those issues and moving towards cost accounting, allocating costs fully to programs and looking at activity based costing, and maybe some more radical concepts some day like accrual accounting and creating the right sort of transparency so you can see what things are costing. If you keep it in-house versus outsourcing it, what is the cost of doing that?

You can find ways where managers come to the conclusion this is insane, I want to do it a different way. You need to have those incentive systems. Money makes the world go around on these issues, so we need to be looking at the accounting systems in the Federal Government.

MR. HARNAGE: First of all, Mr. DeMaio, I like your comments and it opens a lot of discussion I hope this panel pursues because it seems to be life after A76 mentality.

Mr. Beeks, about three years ago I had some dialogue going with BENS and I thought it was very meaningful, although we disagreed in several areas. I found trying to understand one another helped both of us but I guess I disagreed too much because we haven't had a discussion in three years now. I would like that opportunity again.

I guess I'm confused where we are now and it goes to Mr. Tobias' questions a while ago and reading the headings on your testimony -- "A76 contributes to a strong national defense; A76 contributes to improving combat capability and quality of life; A76 contributes to transparency of the government's process; A76 improves the stewardship of taxpayer's money; A76 promotes open, fair competition; the competition engendered in a strong and working A76 process will serve our young soldiers, sailors, airmen and marines better." We talk about improving the A76 process to expedite, it shouldn't take so long to reach a decision, three or four years is unreasonable.

Where I am confused is one of your first suggestions for change is to raise the competition threshold from 11 to 200, which eliminates the A76 process 80 percent of the time. How do you balance those two?

MR. BEEKS: Because we want to improve the tool doesn't mean we believe no matter what tool it is, it is applicable to every situation we come to. The A76 process

breaks down because it's too complicated and it is overburdensome for doing 10, 5, 2 and we've had A76 competitions submitted for one position. It's not a useful way to approach those kinds of decisions.

To make it a good tool, you've got to decide where you're going to use it and make it part of a strategic approach to whatever it is you're trying to do. Then you decide, "where am I going to use A76?" In other cases, you're going to decide--and we think the government should do it more--to make the decision to get out of the business of something or to make a direct outsourcing based on that decision. In that case you go outside the A76 process.

Where you are going to use the A76 process, it's got to be used in a way that would reform it to make it a part of a larger strategic process, so that you're bundling across organizations, across regions. There are lots of ways you could do this. You've heard about performance based objectives. I think that is probably the key to making it a shorter process.

MR. HARNAGE: I hear what you're saying but it isn't coinciding with what I'm thinking. We've talked about A76 being a tool of management for managers to be able to make some decisions as to what is the best process to reach their goals. If that's the case, then why do we want to put any number there that would automatically take that discretion away 80 percent of the time?

MR. BEEKS: I think it wouldn't take it away, I think it gives the manager more discretion about when to use things. Just before I left the Navy we were dealing with a situation where we had gone down the road of starting an A76 competition for the Naval Audit Service. The Naval Audit Service was in an organization very much Cold War related, we had offices in places where the Navy hadn't been in 15 or 20 years. We convinced the Navy that we could do a strategic sourcing with the Audit Service and do it better and avoid the cumbersome steps that locked us into a broken process and broken organizational structures.

When it finally came time to make the right strategic decisions to consolidate those organizations, when we wanted to close an office in a place where the Navy hadn't been in 20 years with one or two people. We got letters. We got congressional inquiries. That kind of strategic decision gets bound up in these cultural barriers to making these things work, things that are going to have to be addressed.

If you raise that threshold and give people more discretion to make these things, at least it takes it outside this lock step process.

MR. HARNAGE: I don't expect a response but I'm

sitting here wondering if 11 is a problem, if we're going to give the matter to discretion, why would we want to put 10 or 200 as long as it is a tool in the bag of options to a manager? Why do we put that restriction there? I'm having a problem trying to understand and I'm thinking about the statistics on DOD where almost 50 percent of the outsourcing was accomplished without A76. I think it's much higher than that if we looked at all the outsourcing in DOD. Obviously there is a lot of discretion there already that is being utilized.

I wanted to ask Mr. Miller, I'm very interested in this cost driving this process. How do we overcome that in DOD when we have an oxymoron in the Department of Defense called "savings?" What's driving Department of Defense is if they can show a savings, they get to spend it somewhere else which is not a savings to the taxpayer: it's a reduction in cost here and an expenditure there.

Since their incentive is driving them to do some of this, how do we overcome that?

MR. MILLER: I'm not sure I believe it's an oxymoron but I do believe DOD has been under intense pressure for the last few years to produce real cost savings because they've had certain factors become much more expensive -- personnel costs and other things -- that have shifted the spin between weapons and personnel.

The short answer to your question is it seems to me in DOD it's even more important to look beyond the cost factor. If one solely looks at cost as being the issue, there may be some critical mission aspect of that activity that could be served better in terms of the competition than is currently being served. It may actually cost a little more, or the cost savings may be minimal, but the basic transformation that Secretary Rumsfeld has been talking about since he took office several months ago seems they were going to have to think about doing things differently. That's what he's talking about.

To do those things differently is going to take a lot more IT and looking just at pure costs is going to be inadequate. I think the whole mission we as the American people would expect of Department of Defense would be looking at best value. If it doesn't meet the mission of the Nation to protect our national defense, we wouldn't want to go in that direction. It seems to me DOD probably is better at that than most agencies in determining what best value is.

MR. O'KEEFE: The driver always asserted is quite the opposite of the premise of your commentary. The general view is when savings are assumed and built into whatever budget formulation as a consequence of any form of competitive sourcing, or direct outsourcing, or whatever

else, the beneficiary organization is not the outfit that has generated the activity. So it's not a case of saying, I'm going to take the savings and plow it into something else. The common argument goes that it's used to attain some artificial reduction in the overall budget request that may be originated. That's been a conundrum that has challenged administrations of both stripe in the last 20 years in trying to meet certain objectives and trying to accomplish what budget top lines may be required and also to try to provide the appropriate incentive or to remove the disincentive typically assumed by the organizations as to why they wouldn't want to go this route which cuts to a different question that has a relationship to it and that is the cost in terms of time, people and so forth to accomplish the A76 reviews themselves.

I think Mr. DeMaio offered the view that one way to look at shortening the time frame as well as improving the efficiency of accomplishing the task of competitive sourcing may be to look at the experiences of New Zealand or Australia. Indeed those are some marvelous experiences.

My friends from New Zealand and Australia remind me of this regularly and also I remind them that represents the functional equivalent of some relatively small public entities we're talking about relative to the Federal Government or in most States of the Federal system of the United States.

The consequence and great advantage they enjoy in talking about those experiences is the point of decision making is closest to the point of service delivery. They can see the effect of what's going on; whereas in rare cases, that can be asserted in the Federal Government much less in most States or State governments.

How do we look at some of the process reengineering issues that may be necessary to cut down the amount of time from the point you decide to do any form of competitive sourcing with A76 the hobbyhorse argument of the week, the year, or the decade or since its inception? How do you cut down that period of time between the decision to move that route and making decisions about proceeding with the alternative in less than two to three years time knowing the primary attribute of this particular process is an attempt to be as fair and balanced as possible?

That in turn draws out the appellate process and everything else involved. From a business perspective, what would you recommend that would reach a conclusion on that methodology in a relatively expeditious time but at the same time attempt to acknowledge some requirement for a fair procedure?

MR. DeMAIO: I'm not going to let the people who

need to address this issue off the hook. You need to invest in better financial management systems, we need to have better cost information. It's been 10 or 11 years since the passage of the Chief Financial Officers Act and some agencies have come a long way but we have a long way to go.

If you're asking the quickest way to start cutting down on some of the time and money spent on these competitions, it's addressing these outside issues. The benefits of that will accrue in other areas outside of the outsourcing process.

Second, agency strategic plans and performance measures, under the Government Performance and Results Act are woefully inadequate to support this process. It requires very strong commitment by the Office of Management and Budget and the appropriators and authorizers to insist that agencies when they submit their budget proposals by budget account and program activity drive performance measures down to those functional levels so that we can equip some sort of performance framework at the beginning of the process.

I cannot let this panel off the hook on that issue. Those twin issues outside the A76 process have to be addressed and I submit to you that is the quickest way to achieve reductions in time and cost for this process.

Outside of that, there are some tactical reforms I think could be made within A76. Some have talked about allowing the competition by the employees at the front end and allowing them a second bite at the apple at the very back so you have a recompetete process. That might address some of the concerns of employees while trying to speed up the process giving them two bites at the apple. There are a number of other tactical issues laid out by the General Accounting Office and others as to how to make some improvements in the process.

MR. MILLER: There's also a cultural comment in your comments, which is slowest equals fair. I think we have to adopt a cultural change that says fair is fair, it doesn't have to be slow. There is nothing inherent in the competition process that says it has to take two or three years. It's a decision that's been reached.

If Congress and the leaders of the Executive Branch change the cultural imperative, then the process can move more quickly along with the specific suggestions Mr. DeMaio made. There are some mechanical aspects to it. In this case, I think the mechanics follow the culture rather than the culture following the mechanics.

MR. O'KEEFE: At the same time it has equated to being slow as a consequence of both sides of this equation.

I think all in this room must muster up at least equal number of anecdotes on both sides of the argument that those public organizations that were unsuccessful will use every appellate opportunity to consider its reconsideration.

Those private entities that are unsuccessful will offer us how their strategy from the very beginning at the time in which the proposal is made is to litigate it to its bitter end. We can argue this both sides but acknowledge the fact that on both ends of this, there is a motivation to slow down that process until there is some determination in an effort to be thorough. In this society, unfortunately that means it isn't public or private, it is that we are by nature more litigious in this country than anywhere else.

MR. MILLER: We had some pretty nasty meetings at ITAA among the members and we discussed whether we would support getting rid of the bid protest process when Congress considered that as part of the Clinger-Cohen Act. Some of the companies said, no, no, we like the bid protest process just fine.

Eventually our associations came around to a very strong position under a lot of encouragement from the Clinton Administration and we end up supporting limiting the bid protest process. It hasn't gone away but it's dramatically improved. Eventually the companies came around. They decided at the end of the day there was something about certainty that was better than uncertainty. I think we can get there.

Yes, we are a litigious society but the political leadership can if not turn it 180 degrees, can turn it 120 degrees.

MR. WALKER: I think one of the other things we have to keep in mind is if there are alternatives to A76 being used and have been used, and if the process is unduly slow, that serves as a disincentive to use the process in the first instance. I think we have to recognize that.

SENATOR PRYOR: I think David Walker brought up at our last meeting, or maybe one of our other colleagues on the panel, purchasing within DOD, gave an example of that. This has been an area that has concerned me for a long time, about the number of individuals who are basically empowered to purchase for the Department of Defense, over 100,000?

MR. SOLOWAY: Contracting officers, I think about 20,000 but there's 150,000 people in the acquisition work force.

SENATOR PRYOR: I asked the President of

McDonald's or one of the officers how many people could purchase for McDonald's at one time and they said, 8, so we have 150,000 in our defense area.

This worries me because once these people are not purchasing something, they are kind of spinning out of work or a job, they're creating a situation where their jobs may be in jeopardy. My question leads to this. How much purchasing is done now by private contractors? Any or much or some or a lot? I need an update on that. I don't think there's a lot.

MR. ENGBRETSON: I don't know the answer to that.

SENATOR PRYOR: This is one areas where I'm beginning to say wait a minute, is there a better way to skin this cat than we're doing now. I don't want to say I'm advocating going to the private sector. In fact, I'd be a bit concerned about that too, probably more concerned than I would be by using in-house purchasing people.

MR. CAMM: If you look at large private organizations, you'll see typically 35 or 40 percent of the value added comes from an external organization. It's a large group and they do a lot of purchasing.

MR. SOLOWAY: I think Senator Pryor is talking about how many people are empowered to buy on behalf of the government or the company.

SENATOR PRYOR: In the Department of Defense.

MR. SOLOWAY: The 150,000 we talked about at the last meeting was people who work in organizations that have an acquisition mission are doing all kinds of things. The actual people who have the warrant to buy is much, much smaller than that.

SENATOR PRYOR: Would that be in the 20,000 range?

MR. SOLOWAY: 15,000 to 20,000.

SENATOR PRYOR: That's a lot of people, that's a lot of power right there. I wonder if anyone has done any thinking about purchasing for the government?

MR. ENGBRETSON: I would add the private sector came in and did some purchasing for the Department of Defense. I know we can do it with less people.

SENATOR PRYOR: Less people but could you get us better prices?

MR. ENGBRETSON: Probably could, yes.

SENATOR PRYOR: I'm not advocating that. I think

that's an area of concern I've always had.

MR. WALKER: We've taken more of your time than expected, but I think it's been a good interaction. So thank you for your time.

I'd like to move to the next panel, a number of individuals who have requested to speak. We're going to provide each three minutes. For efficiency, we'd put them in panels of four, and that way we can minimize the amount of transit time to and from the desk.

I would remind everyone we have clocks up here to help everyone with regard to summarizing the most important points you have to about three minutes. Anything you have in writing will be submitted as part of the record. What's the most important thing you think this panel has to consider?

For convenience, why don't we go in alphabetical order. Mr. Ancell, if you can start off.

MR. ANCELL: My name is Clay Ancell, currently an officer with a company called EarthData Holdings, but for the past 35 years I was with the Federal Government. In the last several years, I've had several hands-on, agency level jobs covering all aspects of outsourcing goods and services, including developing FAIR Act inventories and conducting major A76 studies.

I'd like to give you the view from a retired citizen, a country boy from southeastern Missouri and I'll go over some of my observations over time.

It's my view it's not about government versus private sector competition for the cheapest goods and services. It is about what government should be doing. The core business of government is the act of governance and all non-core functions are commercial activities and unless precluded by national risk assessments, they should be performed by the commercial sector.

It's about recognition that any comparison of government versus industry costs can never be apples to apples unless the true cost the government spends to procure the function is accurately measured.

It's about recognition that OMB A76 is cumbersome, costly, demoralizing to the work force, fundamentally outdated and I believe flawed in concept.

It's about recognition that the current national outsourcing policy as implemented in OMB A76 has created serious trust and credibility disconnects between the work force and employee unions, government leaders and managers.

It's about the government becoming an efficient buyer of best value goods and services from the private sector. It's about government procurement process operating with the same profit motive used in business to business transactions. I define government profit to be measured in the stewardship of the taxpayer dollars and maximizing the government return on investment for appropriated funds.

It's about government agencies being measured as cost centers and being made accountable for accomplishing performance based and value based contracts.

It's about a commitment from industry. It's about industry and the agencies standing together with Congress with a unified plan on how to accomplish the overall mission of providing goods and services to the government.

It's about congressional support. It's about Congress passing new legislation and appropriating funds to implement revisions to the civil service retirement rules in cases of direct outsourcing to lessen if not eliminate the personal impact on the work force.

It's about planning for a transition of commercial activity functions to industry. In each case, there must be a clear plan for an orderly transition starting with a period of increased levels of outsourcing with industry accountable via smart, performance-based service contracts. As an experienced base and solid past performance is achieved, government should consider total privatization of the function whenever possible.

In summary, my message to the panel is that I believe it's all about establishing clear national policy for government getting out of the business of performing commercial activities. It's about strengthening FAIR Act provisions to require the agencies to develop all of their inventories in an unbiased, non-protective manner.

It's about eliminating the requirement in A76 to conduct cost comparison studies and allow the agencies to procure commercial activity goods and services according to standard procurement laws and regulations.

It's about developing a soft landing provision for the government work force, primarily creating greater retirement portability for CSRS employees.

Lastly, it's about planning and implementation requirements, guidelines and regulations to initiate and measure the progress of the transition of services to the private sector to meet the President's goal with the ultimate goal of privatization of as many government commercial activity functions as practical.

Thank you.

MR. WALKER: For the record, we have 10-1/2 months to address all of that.

Ms. Coll?

MS. COLL: My name is Betty Coll and I'm the President of NTEU Chapter 207. We represent employees at the Federal Deposit Insurance Corporation Headquarters in Washington, D.C. and Virginia Square in Arlington.

I'm here to testify before this panel because of my strong concerns about the contracting out of government jobs. I would like to touch on three major concerns related to the contracting out of government positions.

They are: one, the lack of controls to determine the quality of the work performed by contractors; and two, the failure of contractors to pay livable wages to their employees; and three, the lack of citizenship requirements for contractors.

The Federal Government has failed to implement any controls or conducted an analysis to determine the quality of the work performed by the contractors. Since 1995, the FDIC has dramatically increased contractor support to perform its operations. Specifically, the largest expenditure of contract dollars has involved IT operations. It is estimated that the IT budget since 1995 has been \$1.5 billion. The cost overruns for projects completed and abandoned are staggering. The inability to control the projects by proper planning and monitoring lends itself to more spending and not less.

My agency is paying contractors who would be GS 12 or 13 computer specialists rates that equal \$85 to \$150 an hour and in some cases more. The controls to monitor the way contracts are awarded are relatively nonexistent. There are some vague procedures on paper but they are not followed in any practical way. Simply put, there is no accountability.

The Federal Government has always been an opportunity for some Americans disadvantaged by circumstances to prove themselves and to receive training, technical and administrative that lead to better life circumstances.

The contracting out effort at my agency instead has resulted in some contractors being hired at the lower level jobs that don't pay a livable wage in the Washington metropolitan area. For example, a contractor revealed to me the work that was being performed which in my experience would have been graded at a GS-4 level was in fact compensating the contractor at a yearly salary of \$21,000.

I don't think the Federal Government should be in the business of creating a subclass of working poor.

Another major issue I think Americans need to be aware of is that a contractor can be a noncitizen of this country and may in fact be a recent immigrant to the United States. Recently at my agency a contractor was allowed to continue her work in the computer data security area while being located outside the United States because her green card had expired.

The FDIC is responsible for data and reports that show which financial institutions are at the greatest risk. Yet by farming out to contractors the FDIC opens itself up for providing access to confidential data that should never be available to noncitizens of this country.

Thank you for the opportunity to testify. I hope this panel will make recommendations to Congress that will ensure at a minimum the same level of accountability of contractors as there is for Federal employees.

MR. WALKER: Mr. Else?

MR. ELSE: I'm the Executive Director and Founder of the Center for Public-Private Enterprise. The CPPE was formed after I left government service in 1997 and was based on my experience helping the Air Force set up its outsourcing and privatization program working closely with folks like Frank Camm from Rand.

It was formed because I felt we really had missed the boat, that tremendous win-win possibilities are there, were there but that a transformation framework was never established nor pursued from the top down and holistically across government.

This is a much bigger effort than DOD, but seeing the enormity of it in the DOD alone and how far off the mark we are, it's not difficult to understand why we're having trouble across the Federal Government.

The key thing is that five years ago some of us predicted that in five years we'd be seeing we are not very far down the road, that it was going to be very chaotic and very confusing. We predicted that. My goal is five years from now we won't have the same problem based on the work of your panel.

The biggest thing is that we never embraced change. Therefore we never respected the complexity and we've been hearing a lot about the complexity and we never planned accordingly. A very important caveat is I'm not accusing anyone of being incompetent, stupid or insincere but the nature of the bureaucracy that is the Department of Defense and the Federal Government that is bigger than

individuals. There are very capable people in government, folks who came in from the outside from industry who had great ideas and have since gone back to the private sector and were not able to effect a lot of change.

It is very difficult and does take a concerted effort. I would emphasize that we have to take a strategic sourcing approach in the strictest sense which means highest level engagement, holistic and long term, meaning we need to look at things over a ten-year time frame and come up with plans accordingly. Tactical things are not going to get us there; five years from now we'll still be right where we are today if we don't step back and make the big changes.

I think the biggest goals we should look at five years from now is credibility in the program and reasonableness in the program. We should definitely recognize that the current program is not designed for high tech, dynamic changes and a new innovative program would deal with this.

We need more devil's advocate approaches, more ombudsmen approaches, but it's a long journey.

Thank you.

MR. WALKER: Ms. Facha?

MS. FACHA: I'm here representing HUD Council Local 22 AFGE, AFL-CIO. I'm going to do a bullet summary of what my position is.

I work at HUD in the union capacity. We spend over \$1 billion in contract services which exceeds our salary and expense total for the entire agency. We did an analysis along with another local that showed we could save over \$100 million on one contract alone just in my center. That's been confirmed by the Inspector General.

There is no cost analysis done in my agency. Like many other agencies, they bitterly fought A76 as too time-consuming, too expensive, too long, so they performed no analysis at all.

If I were to make a recommendation to this committee, I'd pull out that old keep it simple, stupid. Give them a very basic cost-benefit guideline that they should do before they do anything else. If it's going to be \$10 million, you may want a more sophisticated thing. I hate to have to legislate good management but it's not going to exist unless you do that.

They are not trained to weigh the variables and evaluate the process. It should be a simple test so it can be applied at all levels of the agency where contracting

may occur. I recommend the number of employees times salary plus additional overhead space, if necessary, as just a basic guideline to give them an idea. If agencies cannot manage this, they have no business entering multimillion dollar contracts on behalf of the taxpayer.

One comment about best value. If you can't do a basic cost benefit analysis, what hope do you have of establishing a best value analysis?

There are some other considerations. Another area where policy needs to be established is assessing the capacity of the contractor to provide the services and how many other contract entities can pick up the slack.

HUD being in the mortgage business, people assume there are an infinite number of contractors who can do the various aspects of the mortgage lending business HUD does.

Problem, there's not a surplus of capacity over what mortgagees currently do to take the additional work done by HUD.

When we contract out, we have to service all areas of the country. The private sector doesn't have to do that. There are problems with that so you need to maintain at least a residual capacity both to oversee contracts and to service these areas where the private sector won't go.

When these contracts go belly up or they don't perform because you don't have a lot of options, you're stuck trying to patch up that puppy and make it go because the managers are still under the gun to produce. We've had employees actually perform the work under the contract, which is illegal, because we don't have any other options. Or, we enter into emergency contracts for much more money in order to take care of the problem.

We should find an option that would require managers to manage when they don't have a lot of options and tend not to discipline bad contractors. We have recent incidences where a contractor in his monitoring review was dictating the terms of the monitoring report because it might have an adverse effect on his other business.

That's all. Thank you.

MR. WALKER: Questions from panel members? Mark?

MR. FILTEAU: I'd like to make a comment to the two ladies. First of all, it sounds like you've got a bad scene with your contractor. You should never let a contractor get to the point where they are abandoning projects right and left. That really is an accountability issue. I think that's an accountability issue in the case of your specific situation. It doesn't necessarily translate to the broader accountability issue of

contractors because there's lots of law that applies to all that. They apparently aren't using it.

The other thing I would urge you to take a look at is the Service Contract Act because if the salaries being paid are in violation of the Act then you have another real violation. It's already in violation of existing statutes. It sounds like the salaries are kind of low. It sounds like HUD has a big problem.

I want to point out to you that no responsible contractor or ethical contractor would behave that way. If you have a contractor dictating to you what his evaluation should be, something is very, very wrong.

MS. FACHA: Our chief procurement officer and deputy have been cited by the IG for allowing a contractor to do the statement of work.

MR. FILTEAU: That makes me feel better.

SENATOR PRYOR: It makes me feel worse.

MR. WALKER: For the record, two of HUD's three major programs have been on GAO's high risk list since 1990. Bob?

MR. TOBIAS: Mr. Ancell, I thought I heard you say non-core functions should be performed by the private sector. Would that be so if it could be shown that the non-core functions would cost more or the value would be better if it were performed in-house? Would you still hold the same view?

MR. ANCELL: I think there can always be a case by case process. Typically, the core competency issue is: 'if a particular function is not the essence of who they are, it doesn't make very much sense for them to be performing it in-house.' Part of the problem is it may cost you a bit more to do non-core functions but if it allows the agency to concentrate on its core competency, the overall performance of concentrating on the core and having all focused activities to be on the core mission of the agency. In the long run, the taxpayer benefits and the agency's performance goes higher.

MR. TOBIAS: You want to consider a secondary or tertiary value as opposed to just the comparison of value or cost in your model?

MR. ANCELL: Right. Within DOD the typical process is to do a vulnerability risk assessment as to whether that core needs to stay in-house or not.

MR. TOBIAS: I'm asking something different, not core. I'm asking cost comparison is done by the federal

sector, done by the private sector and I understood you to say if it's not core, it doesn't matter how much it cost, doesn't matter about value, it only matters it's not core and therefore not performed by the private sector?

MR. ANCELL: I wouldn't be a very good citizen if I said the private sector ought to perform some function at ten times the price if it could be done in-house so I wouldn't say that, no, sir.

MR. WALKER: Is it fair to say you're saying cost is important but it's not everything?

MR. ANCELL: It's not everything.

MR. WALKER: And is cost a factor that should be considered but it is not the only factor that should be considered?

MR. ANCELL: What's really been borne out over time is like this morning I heard discussion about grass cutting had to report to the director or whoever the agency was with the commanding general. I can guarantee if you would look at all costs associated with hiring lawn services versus having in-house grasscutters in the long run, the benefit would be to hire a commodity kind of process.

My whole message to the panel is, I think, we've had a very large area of confusion over time as to whether this is all about efficiency, or is this about having the government do what we want our government to do.

MR. WALKER: To what extent is there a difference between, say, functions and activities? One can debate what the government should be doing. You can argue there are certain functions that the government should do because it's unrealistic to expect that the private sector will do it because of different motivations and different measures for success.

However, there are certain activities that are necessary to support those functions, some of which could be done by the public sector, some of which could be done by the private sector. It also seems to me we have to recognize we are where we are and therefore, there may be government employees doing certain things that arguably may or may not be inherently governmental or core.

My question is, what type of consideration should be given in a circumstance where [1] there is a determination that something was not inherently governmental and [2] it's not core, function activity based analysis, but [3] if current government workers are doing the jobs. What are some of the practical considerations that need to be considered in that regard because that's

fundamentally different than a new capability or enhanced capability.

MR. ANCELL: One of the panel members a minute ago mentioned doing business case analysis. My agency had a facility in Hila Bend, Arizona, with no other commercial activities for miles around, so the government people there had to do that function plus the plumbing. So you have to take all that on a case by case basis. I really don't think that's the global issue we're talking about. The commander or agency head has to do what he has to do to accomplish the mission.

MR. HARNAGE: Ms. Facha, you're an attorney with HUD. What's your job title?

MS. FACHA: Trial attorney.

MR. HARNAGE: You stated the circumstances where either the contractor could not or was not doing the job and federal employees stepped in and did it. Of course that is illegal but is that a common practice?

MS. FACHA: It is in my agency and it also relates to the question about the cost and salaries paid because a lot of the contractors hire people at minimum wage to do mortgage reviews. Those people turn over because they get better jobs, they turn over every three or four months so my agency is retraining and retraining the staff. In the meantime, if they are not meeting their goals, they're processing the work because it has to get out to meet the agency's mission.

MR. HARNAGE: Are you familiar with the Service Contract Act?

MS. FACHA: No, but I wrote it down and I'll be looking it up.

MR. WALKER: Thank you very much. The next four panel members, please. Thank you for coming. We appreciate your time.

Ms. Brian, I guess you're first based on the alphabet.

MS. BRIAN: My name is Danielle Brian, the Executive Director of the Project on Government Oversight, a politically independent, nonprofit government watchdog group.

I'm here to register a great concern. As I see what has been a push since the last Administration towards outsourcing particularly given it's based on the principles of acquisition reform, with which we've become quite familiar, I think it's important to remember that so far

the jury isn't out on whether acquisition reform has really been saving the government money. It really has been losing the government money.

In 1999, POGO produced a report available on our website on Defense Waste and Fraud Camouflaged as Reinventing Government. We found by moving towards commercializing we saw 618 percent overpricing as the number of government employees went down because of the lack of oversight.

We found by the reduction of government employees, when we looked at who was being lost, it was those people who were the taxpayers' eyes and ears to make sure the government was getting its best deal.

What I want to know is why should we expect a difference as we look at service contracts from what we have seen happen with acquisition reform? There is no compelling evidence that outsourcing is a good deal for the government. As a result, I question why we are moving in such a direction when agencies like the General Accounting Office hasn't found this is something we should be doing.

The one thing I think of great value is competition because at the end of the day that is the best way for the taxpayer to get its best deal. As we look at the kinds of changes being recommended by industry, it appears we are moving backwards rather than having free and open competition.

We would recommend if there are any changes to the current practice, that we make competition real rather than having the government employees have one hand tied behind their backs and that all contracts be considered for competition, both work currently performed by federal employees as well as work that is currently performed by contractors, as well as new work.

I wanted to also mention I wholeheartedly agree that at the end of the day, cost is not the only element that's important. Once a contractor privatizes a function, the government becomes wholly at the mercy of that contractor. We have real concerns, particularly in the defense field, that the government loses its ability to have real control over cost forever. You can't regain that knowledge.

At the end of the day, we recommend that no changes be made before the GAO or another government audit agency perform a thorough analysis of the actual savings realized as a result of past outsourcing. History has shown us that contractors often project savings in order to end contracts, yet those savings often are never realized.

Thank you.

MR. WALKER: Mr. Goodyear, I believe you're next.

MR. MURPHY: I'm James Murphy, President of Chapter 280 of the National Treasury Employees Union at the U.S. Environmental Protection Agency Headquarters.

I've worked in contract research before government service. This perspective makes me skeptical of the benefits claimed for contracting out routine government work. My colleague, Dr. Jim Goodyear, has given this more study and he will introduce that now.

MR. GOODYEAR: My presentation is based upon my experience in the Environmental Protection Agency's Office of Pesticide Programs.

Pesticide companies must demonstrate the safety of their products by doing scientific studies. The scientists in the Office of Pesticides review these studies and make value judgments on whether the requirements have been met. Administrators obey orders to outsource, even if they have to violate the meaning of the founding executive order. Thus, when they are told to outsource a percentage of their work, they do so, even though the work doesn't qualify for outsourcing because, one, EPA has not instituted other economies such as requiring the study reports and their data be submitted electronically. About three-quarters of the contractors' output could be realized for no cost at all.

Two, government employees take an oath of office to uphold the Constitution of the United States and the regulations made under it. If the safety of a pesticide hasn't been demonstrated, we recommend that it not be registered. This can lead to political pressure. We are able to stop the registration usually by standing on our principles and upholding our oath of office. Contractors are not obligated by this oath.

Three, reviewing studies is not a commercial activity. There are contractors who do studies and write study reports for the registrants as a commercial activity but there are no businesses that actively review studies. The review of scientific studies is an activity that was invented in order to fulfill the demand created by the decision to outsource.

Four, contractors are not more efficient. EPA's management has not done the required studies to show that outsourcing is less expensive. In fact, they tend to set up their contracts so they estimate they will only have nine full-time equivalents. With nine full-time equivalents, they don't have to do the studies. They take one division and divide it into two contracts, nine each. They are now going over that limit, incidentally.

Five, the review of studies is an inherently governmental decision.

Six, many study reports contain confidential business information that the contractor, including contract employees who are noncitizens, should not see.

The bottom line is the Office of Pesticides is outsourcing contracts and wasting money on unnecessary and expensive work, putting the environment and the health of the American public at risk and potentially putting confidential business information in the hands of our manufacturers' foreign and domestic competitors.

In my capacity as an American taxpayer and an EPA scientist, I call on the panel to take action to end the wasteful outsourcing of government work.

Thank you.

MR. WALKER: Thank you very much.

Mr. Guttman?

MR. GUTTMAN: I'd like to make one point. That point is spelled out in a paper I was privileged to do for National Academy of Public Administration in 1996, which they issued as part of their transition series. It is reprinted in your booklet. You, as the member representatives of the best of this generation, have the opportunity here to review and complete a major reform in the Constitution of our government which was engineered by what we now call the greatest generation, the World War II generation.

At mid-century, the generation we now refer to as the greatest generation, engineered a basic change and saw it that way -- Don Price, John Corsen who ran McKenzie's Washington office -- saw what they were doing as making it possible for our country to grow and win the Cold War by harnessing public and private sectors. They did so and I look at this panel and you represent the best tradition of the success of that effort.

OMB, GAO, Aerospace and Rand, key institutions, American innovations, exported throughout the world and professional service contractors and even a former member of Congress who tried to get involved in looking at this.

Tremendous benefits flowed from this. We won the Cold War but that was just one of them; medical research, education, you name it. At the same time, the best members of that generation on all sides, government and contractors, who pushed this through were keenly aware of the basic constitutional problems in the structure of our government raised by this restructuring.

The best and still the classic definition of those problems lies in a report commissioned by President Kennedy in 1962 called the Bell Report. Harold Sideman helped write it and is still very active at age 90.

That report looked at DOD R&D and said we have a profound blurring of the line between public and private. Developments of recent years have blurred the traditional dividing line raising "profound questions affecting the structure of our society due to our inability to apply the classical distinction between what is public and what is private." That panel had an analysis, which has not been bettered in the 40 years since.

We are looking as we see contractors doing the basic work of government at two systems to regulate the public work force, one, the system built over 150 years to protect us all against big government which has a conflict of interest, criminal laws, Freedom of Information Act, pay caps, Hatch Act and so forth.

The other procurement rules were not defined by our congressmen on the assumption that those folks would be doing the work of government. The Bell Commission astutely recognized that as you put caps on personnel, as we have done on a bipartisan basis since 1945, the hydraulic effect is to have the basic work contracted out. The Bell Commission pointed out the effect on the capability of government is iterative, not static. What looks like rationality in the short term, hire a contractor, doesn't look like rationality in the long term because the IQ of government migrates into the private sector.

Senator Pryor throughout his career was able to come along and look at this stuff and the kinds of things he found is not surprising. In 1989, Assistant Secretary of Energy Donna Fitzpatrick said, "Senator, you want to know why we contract out for consulting services? Because we have to, because of personnel caps." As a rule of thumb, it's \$25,000 per employee more. We can't do anything alternative. We have a system that has resulted in a work force three times the size of the public work force.

The point of this all is not that contracting is bad. It helped us win the Cold War. My dad was a professional service contractor. As a lawyer, I'm a professional service contractor, not for the Federal Government, but for States and localities. The question is, it's time to make this public--have some truth in government. The question is whether the rules of this system are going to be set on an ad hoc basis by the players who happen to be big enough to bring their cause, whether representatives of AFGE or Aerospace, to the attention of the powers that be or whether it's going to be visible to the public at large.

The question is whether it's going to be dealt with through the courts on an ad hoc and incoherent basis, because they don't see the big picture, or it's going to be dealt with up front by the United States Congress and the United States Executive Branch and you people are here with an extraordinary window of opportunity for a post-Cold War opportunity to make good on a reform undertaken by a generation that was terrific, saw the problems, knew they couldn't solve them because we had to win the Cold War and here you are. You've got the privilege, we've got the peace and the ability to look at these problems.

MR. WALKER: Ms. Nelson?

MS. NELSON: Thanks for the opportunity to present the views of the acquisition solutions to this panel this afternoon.

My name is Shirl Kinney Nelson, a managing editor and senior policy analyst for ASI. Before my retirement from federal service in October 2000, I served as the senior Procurement Executive and in other senior executive positions for the Commerce Department.

ASI, the company I've been with since I did retire from federal service, was created about five years ago with the express purpose of assisting federal agencies to identify and implement acquisition reform and best practices. This is our core capability.

As part of this core business, we publish a monthly white paper. It's called the Acquisition Directions Advisory. In April, that Advisory was entitled "Outsourcing, Big Again." I'd like to include that as part of my testimony and present a few of the most relevant points from that Advisory to you.

We count almost 60 federal agencies as our clients and through our consulting work with our federal clients we do have the opportunity to assess how well policies are working in the field. I would like to share with you some observations from the trenches and offer our suggestions for change.

The first observation is that the principles underlying sourcing decisions should be refocused. In our view, the decision on what is the right source to perform an activity should be based on three questions: Is the function part of the core mission of the agency or is it support or infrastructure related; Is there adequate competition in the commercial marketplace for performance of the activity; and third, is the government or the private sector more likely to provide a superior outcome in the performance of the function?

To cut to the chase, we believe the right source

is the private sector if the function is support or infrastructure related. There is adequate competition in the marketplace to perform the function and the marketplace is likely to produce superior results. Under these conditions, agencies should competitively contract for the activity if it is new or directly convert the activity to contract if it is currently performed in-house.

Under these conditions, public/private competition wastes precious resources on both sides. We have heard it described by government employees as well as contractors that the current process is more like cruel and unusual punishment.

In our view, the current policy is an impediment to good sourcing decisions. Forcing agencies to use a one size fits all approach to address complex, 21st Century challenges. For example, the current principles assume a world in which the performance of service activities including the transformation and modernization of agency systems includes nothing more than a frequently inappropriate and rarely successful apples to apples cost comparison between government and contractor FTE. Let the low bid win.

It assumes that a cost comparison will result in the best deal for the American taxpayer despite the fact that agencies and contractors account for their costs differently and the performance savings claimed, either way, are often questionable.

Agencies have great difficulty recruiting and retaining talent in the face of a shortage of skilled technology workers; those encumbrances of the federal personnel system make it extremely difficult for agencies to refresh their work force with the skills needed for today and the future.

Transformations such as the Army's logistics modernization system involve dimensions far beyond apples to apples cost comparisons and despite the fact that a competition won by a federal agency virtually guarantees the status quo. Performance may be marginally improved but rarely does it provide the transformation that is frequently needed.

Our second observation is a pragmatic one. The acquisition work force cannot fulfill the demands of the current approach. The acquisition work force is not equipped either in numbers or skills to handle the volume of A76 competitions on the horizon under the current policy.

Aside from the numbers employed in the work force and their relative inexperience, we know they are not trained and skilled in performance based contracting. We

include in this work force not just procurement personnel, but the program personnel, management personnel and entire team of technical and other personnel that must be assembled for an A76 competition.

While a work force with these skills is needed in any case, it is essential for conducting A76 competitions.

It is unwise to base sourcing decisions on competitions managed by a dwindling, ill-trained work force.

What can be done? We have two major recommendations for this hearing and we will most likely have other recommendations for future hearings.

First, discard A76, start over, replace it with principles that embrace results driven sourcing decisions.

Policy that could be implemented through GPRA guidance and that should take sourcing decisions out of the procurement arena.

Second, if you do not replace the current principles, waive them for the sourcing of information technology services. No sector is more dynamic and market driven than the IT sector. Let the marketplace provide the efficiencies and cost savings the government officials are striving to provide the taxpayers.

We are aware this panel is planning to have subsequent hearings. We suggest the panel devote at least one of those hearings to how industry makes outsourcing decisions. We heard a bit of that this morning in Panel 3.

I think it would serve us all well to hear a bit more of that, and that you base your policy recommendations to Congress on successful commercial, best practices in outsourcing.

In conclusion, in order to deliver improved services to its citizens, the government needs to be able to manage more like the private sector rather than compete with it. This view and others are expressed in the April Advisory that I'm leaving with you for the record.

Thank you again for the opportunity to present our views which we believe are also the views of the many government procurement and CIO offices that we support.

MR. WALKER: Let's go ahead with questions. Stan?

MR. SOLOWAY: A quick question for Ms. Brian and one for Mr. Guttman.

Ms. Brian, we could have a fairly spirited discussion about acquisition reform and whether acquisition reform really detracted from or was designed to increase competition. You seem to imply that you don't believe there is competition for the services we're talking about.

MS. BRIAN: No, I acknowledge there is competition but I'm saying as we're talking about change if anything, we need to make that a more healthy competition when you look at the competition and the fact the government employees don't have the right to make challenges the way industry does.

MR. SOLOWAY: That's an appeal issue. Do you define competition strictly as public versus private or do you acknowledge that competition in and among commercial firms in the commercial marketplace as being a driver of efficiency in performance also?

MS. BRIAN: A very important part.

MR. SOLOWAY: Mr. Guttman, you specifically cite DOD R&D as an area of concern beginning with the Bell Commission in the 1960s. One thing that strikes me about your discussion is you did not acknowledge the change in the national economic base in the last 40 years, the biggest being in the 1960s, when the government was the dominant source of R&D. In 2001, we'll see \$180 to \$200 billion in private sector R&D versus maybe \$40 billion, give or take, in the government. What you've had is a fundamental shift in the technology base that is no longer owned and driven by the government.

How is the government going to keep pace with that technology base if it's not going to aggressively embrace it?

MR. GUTTMAN: I think we are talking at cross purposes. I am as much in awe of the accomplishment of the government as we all are in this room in terms of the R&D. What I want to point out is there is nothing wrong with contracting out. The reality of our 40-year experience is we can't measure efficiencies. The most stunning piece of testimony was that given by Mr. Walker's agency in 1995 when asked to provide Congress the results of 40 years of A76. He said, I don't know. Mr. Koskanen said the same thing for OMB.

The notion that there are things like performance based contracting, someone asked me is this new. It's like General Motors in the good old days, tail fins, hood lights. If you want to read about performance based contracting, Mr. Soloway, go look at Raymond Callahan's Education in the Cult of Efficiency about the 1910-1911 use of performance contracting in schools. These are terrific management innovations of the early twentieth century. Just using them and the word competition doesn't mean our government, with its diminished capability, is going to be able to manage these things.

Your predecessors, and Jim Hostetler is still with you, were wonderful people and great Americans. The

difference between what has been this generation's perspective and that of the greatest generation is the greatest generation's perspective is to see the importance of the public sector. You can't have good contracting without a good civil service that is not going to be eroded.

The point is we aren't going to blind ourselves for all these R&D folks. Of course you want to use them, there's nobody in the room that doesn't want to use them. The question is are we going to change the quality and dilute the quality, not only of the civil service but the contractor bureaucracy and lose both of what we had 30 years ago.

MR. SOLOWAY: I don't think anybody on this panel is suggesting we do that. I think we have agreement that a strong business management capability in the government is absolutely essential to the engagement you're talking about. We also have a whole system of fairly specific competition requirements, procurement rules. The way you put it sounded like we were out there in the sort of the wild, wild west of procurement. I would suggest quite the opposite.

MR. GUTTMAN: You asked about national security. Somewhere national security has been endangered by the contracting ineptitude of the United States Government. Hartford is now being sued by the Justice Department for the failure of the foreign aid policy in Russia. With the US Enrichment Corporation, we have a situation where entire nuclear energy supply is endangered by the contracting out of our dealings with Russia.

This is not to say that contracting is not good and important. It is to say that mistakes can be made in these areas, particularly when there is not oversight and can be perilous for our future.

MR. WALKER: Let me state for the record, Ms. Brian and Mr. Guttman mentioned GAO. GAO has done a lot of work in this area and there have been cases where GAO has said that contracting out saved money. At the same point in time, cost is not everything. We know the Federal Government has totally inadequate cost accounting systems. It doesn't have accurate financial management much less activity based costing in most circumstances.

Many times cost is based on short term costs rather than long term costs. As we have talked about here today, cost is important but not everything. Value counts, other factors count as well.

Also let me note we have noted for years that one of the key elements is even if you are going to contract out something, you've got to maintain an adequate number of

public employees to manage cost, quality and performance. That is absolutely essential. The failure to do that has put a number of programs and functions at high risk. Nobody wants that. That has to be addressed as a fundamental part of this equation.

MR. FILTEAU: My question is for Dan Guttman. Speaking as a 30-year contractor, I'd be the first to tell you there are some functions which should not be contracted out, particularly ones that put the contractor in grave danger of being in constant conflict of interest, like evaluating other contractors.

What would you have us do? What do you think this committee ought to do?

MR. GUTTMAN: I understand the politics. I've come around to realizing you can't draw a bright line and the inherently governmental function stuff makes the Tax Code look like its meaningful public discussion.

You're really talking about a practical question. We have applied one body of laws to folks that do things called kind of public, the most important of which is the United States Constitution and another body of laws to people we call private. When you privatize prisons, does the Fourth Amendment apply?

For me, it's not "I refuse, I'll fight to the death, your right to privatize prisons." What are you going to do if you privatize it about A, B and C? What's happening in the real world is I observed in the absence of congressional and Executive Branch oversight, you're getting third party, ad hoc development of these rules. Somebody who gets beaten by a private prison guard goes to the Supreme Court, which doesn't see the whole picture and decides this piece of the puzzle that way. If you don't do anything, we're going to have default, restructuring of the rules of government.

I don't have a simple solution. I've got three or four pieces. The first piece is truth in government, pretty simple. One is look at the numbers. Two is look at and compare the different body of regulations. The most important thing is we have stovepiped our analysis of these problems. We have personnel, Volker Commissions and your commission. What you need is somebody to look at the whole thing, not necessarily to have a uniform, integrated personnel force but to be able to say with confidence that the things we talk about when we talk about A76 or whatever are in fact commercial, there are lawnmowers, let's not worry about them.

Right now you have a situation where the way it looks President Eisenhower's being upset about the military industrial complex was being upset about Acme Janitorial

Services taking over. You have the worst of both worlds in some sense as contractors.

I learned that contractors flourish only with the strong coherent government that has the trust of the people. To the extent we now know this is contractors running it, everybody is in the soup.

It's basically, "look at the big picture." Sort out the kinds of regulations. These are things that are really commercial, we don't care about them right and then you have your union folk. What I say to the union folk is unfortunately you've built yourselves 30 or 40 years of successful fortifications so you have all these rules and regulations. The problem is it's not easy to leave their fortifications. If you give them some modest assurance that if Johnson Controls gets the business, you may still have a job, all those obvious things which most good businesses are pretty eager to deal with. You may have a better sense of what is left as your core.

MR. CAMM: Ms. Nelson, could you tell us more about the process in which you would apply the performance based principles you had in mind? Could you point us to your idea of what those principles might be?

MS. NELSON: I'd say for this hearing we haven't gone as far as to try to work out a new process. We don't have an ideal answer but we would like to help with that discussion as this panel moves forward to future hearings.

I was looking at the overarching strategic approach for principles that I think would better serve us than the principles we currently have, the cost comparison, public/private competition principles that we're following now.

I'm really reiterating much of what I heard this morning when others spoke about taking the strategic view, really looking at it from very much of the perspective of the Government Performance and Results Act, what is the mission of the agency and working from there.

I totally agree that, regardless, we need enough talented and capable people in the government to perform appropriate oversight for whatever is ultimately contracted out. It's not an argument to contract out everything; it's an argument to take a strategic view, work force planning type of approach to answer what is the core business of the agency, what is the mission of the agency, is there competition out there in the marketplace at all and even if there is, who? Would it be the government or the private sector that would give us the best performance, the best results, not who can do it cheaper necessarily because that can lead to poor decisions.

As we heard industry people say earlier, anyone who makes a sourcing decision solely on cost is headed for trouble much of the time. Again, we're not saying it's not any part of the consideration but it certainly should not be the focus of the consideration the way it is today.

MR. HARNAGE: Ms. Brian, I'm familiar with your organization and I want you to know I think you do some great work.

As an expert on contract administration, I'm going to lob a bomb to you so to speak -- she's the expert. How do you see how we got ourselves in the predicament we are today? What do you see that we could do to get to a better full, public/private competition? What are some of the ideas that you're hearing that you would suggest we be on guard about?

MS. BRIAN: As I said before, most of my knowledge, I'm new to looking at service contracts, so my experience has largely been with acquisition. Clearly our concern has been the direction over the last few years in the government to reduce oversight. We've seen that not only with the agencies within the Department of Defense but at the same time also there has been much less oversight in Congress than there was.

As a result what we're seeing is more reliance on the private sector essentially policing itself, which I think history has told us is an unreasonable position to expect. We need to have a trust at some level that government employees and the government's job is to protect the best interests of the public. Of course a contractor's job is to preserve the bottom line of the shareholders and their company. I think we lose sight that the government has a mission that's not just making a particular product or providing a particular service but is really protecting the public.

MR. HARNAGE: Mr. Guttman, there's been a lot of discussion about not needing some information my organization thinks needs to be in mix to making intelligent decisions. That is we need to know how many contracts there are out there. We need to know how much those cost. If they were competed, we need to know what was the projected savings and we need to know were any savings realized, and the number of contractor employees for various reasons. We're hearing from some corners that all that is unnecessary. What is your opinion on that?

MR. GUTTMAN: I agree with Mr. Soloway that the inherently governmental data OMB is collecting should be public and my view is that all data on this should be public unless we're talking national security.

I fully recognize there has been a tremendous

strides made in significant part because of David Pryor in the collection of systematic information on contracting and the Federal Procurement Data System and provides information that 15 years ago wasn't there.

That being said, when the U.S. Congress gets a budget they can see on every box of the organization chart how many FTEs, equivalent FTEs, what level and what salary, you have no notion of what is supporting that box.

The U.S. Government organization charts we all go to as citizens will tell you who is in charge but you call up and as Senator Pryor found out, half the time you get somebody who is a contractor staffing that. They don't even tell you that, except now because of Senator Pryor, EPA changed its rules that contractors on hotlines have to disclose themselves, a lack of visibility at the most elemental level.

Third, talking about the dual systems of regulation, the Freedom of Information Act, the most fundamental law opening our government transparency, the courts have repeatedly found it does not apply to contractors. Therefore if Danielle, Mr. Goodyear or I ask for a contract, we'll get a contract a year or two later carefully redacted. One of the things we typically won't get is the name of the individual in charge of the work for the contractor, the key employee, the person actually doing the work of government.

The irony is why won't we get it? We won't get it because it's a business secret. Somehow Booz Allen might find out who is working for TRW as if they already didn't know. This is basic gut stuff. At some point in time we might realize it's silly to ask for the comparisons number by number but that's not where we are now.

When we tried to create a truth in government organization chart at the Department of Energy, we found a scary amount of national security, nuclear weaponry stuff is contracted out. I'll give you one example of the kind of thing we found.

In addition to the fact the Secretary of Energy didn't realize his testimony before Congress was written by a Defense contractor, the Department repeatedly denied it and the only way we found out was the Washington Post had an ad saying looking for people to write Secretary of Energy speeches. You don't appreciate unless you have to waste your time and the tedium of this stuff, people inside the government don't know who is doing their work.

You get a new Secretary coming in and signing off on someone from Assistant Secretary Danielle Brian who doesn't realize it's Danielle Brian's contractor and that contractor was assembling work from another contract and 14

layers down. You have Admiral Watkins who was terribly embarrassed, he didn't know who was doing his work. The point is we really don't know at the most elemental level. It turns out they were contracting out administrative law judge decision-making on security clearances which you and I might think is a darned sensitive thing, a basic right, whether or not somebody is going to be found to be a communist and can work in the government.

The Department of Energy explained, 'you have to understand the reason we're contracting this out is it's triage. Do you want us to contract out actually dropping the bombs? We only have a finite number of civil servants so we do a triage.' This is not public stuff and it's scary. It's basic and elemental.

At some point, it will be overload to make it public but that ain't the point yet.

SENATOR PRYOR: I really was moved by the book, the Shadow Government, that Dan Guttman wrote years ago. If you have not read it, it truly is a classic about what we do in our government. I go back a long time with Mr. Guttman and he helped me to begin to understand this issue and I still don't understand it. I left the Senate and I had less knowledge of it than I did when I started almost because it is so enormous and so overwhelming, the challenges of this panel that David Walker has assembled mandated by the Congress is so enormous that I hope we can do it in a year and I hope we will do it in a year.

I want you to know, Mr. Guttman, how much I have appreciated my association with you over these years and what that has meant to me, and helped me to ruminate on some of the concerns we're talking about today.

The first day I met Mr. Guttman, he was in my office going through all this and he got very, very excited. I was sitting after about 30 minutes and I kept a little hammer in my desk drawer for various purposes, so I reached up and said, Mr. Guttman, I don't know you well, but if you don't calm down, I'm going to hit you in the head with this hammer. That's how we met.

MR. GUTTMAN: You must have hit me in the head because I don't remember that.

SENATOR PRYOR: You've energized us all and thank you very much.

MR. WALKER: We appreciate all your time. Will the next four individuals come up, please?

We appreciate all of you staying and presenting to us this afternoon. Mr. Nero, I think that means you're first.

MR. NERO: Thank you for the opportunity to talk about the implementation of the FAIR Act as it relates to the process of determining whether or not functions performed by federal librarians should be performed by government personnel.

My name is Kenneth Nero, Chief Librarian at the National Labor Relations Board. I'm here basically on annual leave. I am here also as an interested party as defined by Section 3(b)(3) of the FAIR Act to join the dialogue about the outsourcing of federal librarians in particular, and the outsourcing of professional and administrative occupations, in general.

Several FAIR Act inventories submitted to OMB in 1999 and 2000 listed libraries as commercial activities. The work performed by federal librarians could be misinterpreted under the rubric of the FAIR Act unless the framework for determining inherently governmental functions recognizes the role of information resources management as a critical need within an agency's internal service division.

Federal librarians manage information resources at the enterprise-wide level. The definition of information resources codified at 44 USC 3502(6) includes equipment and funds. The equipment procured by librarians using appropriated funds comprises a wide range of copyrighted resources from print-based materials to electronic resources. Given this discretionary role in evaluating the content of information resources before obligating government funds and their increasing responsibilities for enterprise-wide deployment of these resources, I believe certain functions of the federal librarian position require governmental authority.

The manager of the agency's information resources portfolio ensures content management strategies are consistent with the agency's performance plan and the Government Performance and Results Act. They mirror the role of chief information officers who oversee the information technology investments in the Federal Government. CIOs ensure IT investments support the mission. Federal librarians ensure that investments in content resources support the mission.

Excluding menial clerical occupations and constitutionally mandated functions and also the SESers and political appointees, several administrative and professional government occupations defy categorical assignment as commercial activities in the Federal context, if evaluated according to the criteria of OFPP Policy Letter 92-01. While professional and administrative positions exist to support the statutory missions of the Executive Branch and are regarded as profit opportunities in the private sector, some of these positions on the list

of function activity codes do perform inherently governmental functions.

The concept of an inherently governmental function must be understood as a core competency and something integral to the way the government conducts its business. In regard to federal librarians, many of their functions should be viewed in the context of Sections 5(2)(b)(i) and 5(2)(b)(v) of the FAIR Act.

When an agency deems its entire federal library as a commercial activity without an analysis of what personnel performs in terms of inherent governmental functions, the FAIR Act inventory is less than accurate and is tantamount to throwing the baby out with the bath water.

Many functions of the librarian position require governmental authority to negotiate on behalf of an agency, acquire resources, align content management strategies with the strategic plan, and administer internal controls.

This concludes my statement and I'm grateful for this unprecedented opportunity to state my views.

MR. WALKER: Mr. Palatiello?

MR. PALATIELLO: I appreciate the opportunity to share some thoughts with you this afternoon.

I represent an organization called MAPPS, an association of private mapping firms. We have been involved in this debate for quite some time.

You have a herculean task before you to complete your work in a year and a half, work on an issue that has been around and debated for nearly 70 years. Based on my research, I have found that in 1932, a special committee of the House of Representatives first identified and expressed concern over the fact the government was competing with the private sector. This was an issue with both Hoover Commissions. In the 1950s, the House passed legislation. The Senate Governmental Affairs Committee reported legislation and it was only then that President Eisenhower issued what was then known as Bureau of the Budget Circular 55-4. This issue has been around for a while.

Let me quote the Eisenhower Circular, "The Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels." That sentence is still in OMB Circular A76 today, so I would urge this panel to look at the historic context, which this issue is all about.

I think we have to move away from looking at

esoteric methodologies about cost comparisons. What we are really talking about is whether in a free society and a free market economy, should the government be competing with its taxpayers. I think all of us would agree the answer to that is no.

Given the fact that under the first round of FAIR Act inventories, we've identified 800,000 federal positions that by the agency's own admission are commercial in nature, it is clear we have failed to keep government focused on those things that only the government can do and that we as taxpayers want our government to do.

I would call your attention to the phrase, "service or products for its own use." I would argue that in 1955, President Eisenhower did not envision or imagine the Federal Government providing products and services not for the government's own use but out in the marketplace and the government is doing that today, providing products and services for sale to individual citizens, to private companies, to other federal agencies and State and local government and even to foreign governments.

Mapping is a perfect example. You have over 3,000 federal employees engaged in mapping and there is a healthy and capable private sector. Why is the government duplicating the private sector? There is a role for government in mapping, setting standards, doing limited basic research, managing contracts, coordinating the requirements of agencies, but the actual production of maps is something that can and should be contracted to the private sector.

I would urge this panel to look at some fundamental questions in lieu of A76 and cost comparisons. That is, is the product or service commercially available, is there a qualified private sector to meet the unique needs of the government, does the activity duplicate or compete with the private sector. If the answer to those questions is yes, the government ought to move away from those and reapply the resources to those things that we as Americans want our government to do and which only the government can do.

Thank you.

MR. WALKER: Mr. Ruggieri?

MR. RUGGIERI: My name is Jim Ruggieri. I'm with the National Society of Professional Engineers and represent about 60,000 professional engineers in the United States. I retired and left the government in October 2000, prior to that worked in the private sector involved in acquisitions, major ship acquisitions primarily, so I have seen both sides of the fence.

We believe in an outsourcing model. We believe in a strong civil service as said earlier. No matter how good your outsourcing facilities are, if you have no means of managing that, you have no way to know what's walking out the door.

Federal outsourcing of professional service particularly, in the areas of engineering and architecture, is desirable and cost effective since skill sets and resources can be ideally matched to tasking. In a conventional in-house arrangement, resource numbers and skills are limited and serve to drive the tasking and project scheduling.

Outsourcing provides elemental resource configurations and choices that permit aggressive project planning and accelerated project scheduling. Alternatively, the number of resources and skill sets would serve to drive your planning and schedule.

Outsourcing is consistent with the performance goals of the Office of Management and Budget to capitalize on private technologies and standards and to streamline regulatory functions described in OMB Circular A119. As much as that circular describes commercial standards in lieu of prescriptive regulations, it is consistent with the notion of privatization.

Outsourcing proposed by the NSPE describes the Federal Government comprised of a small number of skilled program and project managers that are also well-versed and qualified in technical specialties management. Most production functions are contracted and performed by the private sector and the government functions to coordinate the efforts of the private sector resources.

The precedence for this has been done. The DOD is a bit better at doing this than some of the more civilian agencies, particularly in the area of ships and combat systems procurements. We only need to look across the river at what used to be a hobo jungle, which is now Crystal City, which has been built up primarily on outsourcing.

The PMs in the government are highly skilled in technical craft in addition to being skilled managers and comprise licensed and registered architects and engineers where A&E services are being performed. Presently, there is no requirement in the federal government to have licensed architects and engineers. The Federal Government is the only entity that does not require licensing of these folks.

We believe if you're going to have outsourcing contractors that you're obligated to have the most qualified individual sitting on the other side to make a

determination whether the deliverables are compliant.

This model also identifies adjacent private A&E entities conscripted into the program to perform independent oversight or to serve as independent validation and verification agents, to perform detailed technical auditing of the services and deliverables where needed and all program A&E functions have the ability to provide services when there is no conflict of interest.

Thank you.

MR. WALKER: Ms. Sanchez?

MS. SANCHEZ: My name is Louise Sanchez, a board member of the National Alliance of HUD tenants. I would like to introduce our Executive Director, Michael Kane, who works closely with us.

The National Alliance of HUD Tenants, NAHT, is the Nation's first and only membership organization representing the 2.1 million families who live in privately owned HUD assisted housing. Tenants founded NAHT in 1992 because we believed tenants need to speak for themselves. We have to make our voices heard here in Washington as well as in the various ten HUD regions.

Our membership today includes voting member tenant groups and 45 areawide, countrywide, tenant coalitions or organizing projects in 32 States. We are governed by an all-tenant board of directors, elected by member organizations from all ten of the HUD administrative regions at our annual June conference.

Our comments here focus on the impact of HUD and their decision to contract out work previously done by HUD staff. That is the administration of Section 8 contracts. HUD refers to these as CA contracts. The vast majority of our members live in privately owned housing where the owner has one or more Section 8 contracts with HUD.

Through these contracts the owners assume responsibility for providing decent, safe and sanitary housing. Oversight and enforcement of these contracts directly affects the quality of housing for our members.

In 1999, the agency proposed contracting out the oversight and enforcement of Section 8 contracts issuing a request for proposals in May. It is our understanding that the agency began entering into CA contracts on a State by State basis in 2000. These contracts have an initial term of three years and may be renewed for two additional one-year terms.

NAHT opposes the CA contracts for three reasons. One, the contracts result in more bureaucracy that tenants

must work with; two, the contracts are a misuse of Section 8 funds and three, the contracts cost far in excess of the cost of having the work done in-house.

Pursuant to the CA contracts, HUD staff administered the Section 8 contracts previously. Now, individual State public housing authorities or housing finance agencies administer the Section 8 contracts. In some States such as New York, the State agency has subcontracted the work to a private entity. Now, instead of having to learn one bureaucracy, tenants are forced to learn two or three. At a national level, we are talking about the possibility of dealing with 51 different bureaucracies and their interpretation of HUD standards.

Our goal at NAHT is to level the playing field for all tenants nationwide. One administrator helps achieve uniform policy. We want to enforce centralization, not privatization. The CA contracts have led to an explosion of bureaucracy that is fundamentally unfair and overly burdensome for HUD assisted tenants.

The CA contracts misuse Section 8 funds. The cost of these contracts is taken from Section 8 funds. This is money that should be spent on housing, brick, mortar, roofs, floors, elevators, heating. The cost of administering the Section 8 contracts used to come from HUD's salaries and expense budget. Now, the cost is coming from the program, leaving less to meet the crisis in affordable housing. The CA contracts cost far in excess of having the work done in-house.

Finally, based upon review of the HUD Inspector General, these contracts cost far more than it would cost to have the work done by HUD itself. In September 1999, the HUD Inspector General issued a report finding the agency's cost benefit analysis which was not conducted under OMB Circular A76, overstated the cost of performing the work in-house and nonetheless showed it was less costly to keep the work in-house.

Of even more concern to tenants the IG found contracting out would put the entire Section 8 program at risk and we refer you to their report on page 17. Secretary Martinez testified before the House Appropriations Subcommittee that the agency was seeking \$196 million to pay for contract oversight of approximately 20,000 Section 8 contracts. That works out to a cost of \$9,800 per contract overseen.

Prior to contracting out this work, the HUD standard for project per HUD staff person was 30 to 1. We know that staff routinely had 40 to 120 projects in their individual portfolios creating service problems that should have been resolved by hiring more staff, not contracting out.

MR. WALKER: Would it possible to put some of the numbers in the record rather than going through all of them because we are running over. If you could please summarize, I would appreciate it.

MS. SANCHEZ: The bottom line is a simple evaluation shows the cost of contracting out must be at least twice as much as keeping the work in-house. NAHT urges the discontinuance of the CA contracts. Although we believe the CA contracts waste scarce federal housing dollars, our largest concern is the adverse impact on customer service. These contracts create additional layers of bureaucracy even if, as Deputy Assistant Secretary for Multifamily Housing, Fred Tumbas, asserted at our June 3 national conference, the cost of the CA contracts are only 7 percent more than having the work done in-house. The work should not be done by 50-plus State and private entities.

HUD assisted tenants seek one set of rules, one set of standards, one bureaucracy. Section 8 contract administration should be done by the HUD staff.

Thank you.

MR. WALKER: Mr. Spiegel?

MR. SPIEGEL: Jay Spiegel, Executive Director of the Reserve Officers Association.

What I would like to talk about is a unique class of individuals who are on the Federal Government payroll, military personnel.

We believe the FAIR Act as currently drafted does not encompass military personnel and that DOD and logically DOT on behalf of the Coast Guard should not report military personnel in their FAIR Act inventories. We would urge you not to change that. We believe the unique role of the military in going to war and performing war functions under hostile fire makes them fundamentally different from the class of civil servants who make up the rest of the government payroll.

We would urge you not to learn the wrong lessons from the past. One, being that simply because wheeled vehicle maintenance is a commercial-like function, does not mean that wheeled vehicle maintenance performed under hostile fire in a chemical environment should be performed by contractors.

Prior to my going to ROA, I was the Deputy Assistant Secretary of the Army responsible for putting together the Army's first FAIR Act inventory for the Secretary and also responding to DRD 20. I see many here with whom I worked and worked against in making that

argument. We believe that war is not a commercial function and metrics that make sense in peacetime should not be confused with what is necessary in combat.

Secondly, we would urge you not learn the wrong lessons from what is going on in the Balkans. It is clear the contractor support in the Balkans is performing extraordinarily well but that is not a theater where the enemy is likely to use any form of mass destruction weapon and contractors are not being killed on a daily basis such that we have to get to the question that if a group of contractors was killed, would the next group show up?

The next war is going to be fundamentally different if we refought Desert Shield/Desert Storm or went to war in Korea and we'd urge you to understand that distinction.

These issues about what kind of people should be in theater are force management issues. They are not acquisition issues. Those who understand the various components of what is needed in combat and what is not and what is likely to be the scenarios we will face ought to be those making these decisions.

Lastly, it costs more when you convert a military person to contract because you're paying under your operations and maintenance funds for the contract and you're presumably still going to pay the military person under your centralized military pay accounts. Unless you want to convert this process into a means of reducing the end strength of the military, I would say that is something uniquely within the province of the Chiefs working with the Under Secretary for PNR and the Commandant of the Coast Guard within his operation.

If you're a logistician in the Army, Marine Corps, you're an infantryman first, you're a trigger puller first, not a logistician.

I see my time has expired and I'll end there.

MR. WALKER: Thank you. I think we've covered everyone. Questions?

MR. CAMM: Mr. Spiegel, before the FAIR Act came out, it was routine for the services to think about military personnel as part of commercial activities. Since 1995, we've seen all of the services have found opportunities to outsource or to review for potential outsourcing activities that included military personnel.

When we talked to people in the services now and they see the military missing from the FAIR Act, a common reaction we're getting is we can't even consider military personnel because we have to focus on the FAIR Act

inventory.

You're not saying it's inappropriate to consider military personnel for potential sourcing review if in fact after you've gone through all the screens of DRD 20, you see they are not required for deployment, and so on or are you saying we have reviewed all the military personnel required, so we shouldn't revisit that?

MR. SPIEGEL: No, I would think if you decide you want to review, say, the Directorate of Logistics at Ft. Hood for outsourcing and you have some folks who are in uniform who are part of the Directorate of Logistics not performing an oversight role and you wanted to substitute their function with contract personnel, that would be an appropriate thing to do. In fact, that would be the right thing to do if you could take that military person and put him in a combat unit.

The fear frankly, and what I saw during my experience in the Pentagon, is that what we're looking at is a drill to identify savings out of your personnel counts to fund other activities. The military's fear I believe is that if you outsource military positions, you won't get the additional money to fund the contractor and to continue to fund the pay for that soldier.

If pay was not an issue, then I think the military would gleefully get as many military people as they could out of commercial functions, subject to the requirement that the military regardless of service have some rotational policy so that you're not always in the field. Secretary O'Keefe would obviously be aware of the ship to shore rotational issue. Every service has to have that. The Army is perhaps going from a Force Com assignment to a TRADOC assignment. Let's face it, most of TRADOC could in theory be contracted out, but you need someplace for the soldier to go so he doesn't go from Korea to Bosnia and then back to Korea. I don't think that soldier's spouse would be particularly happy and that becomes a retention problem.

MR. CAMM: Where those issues are addressed, you are saying if it's appropriate, we should continue to think about military billets as a possibility?

MR. SPIEGEL: Provided it's not an excuse for driving down the end strength for cost savings reasons.

MR. SOLOWAY: So I understand, what you're suggesting is if you are identifying military positions performing commercial activities, clearly none of them are 100 percent commercial. They all have other duties and so forth but some percentage might be and therefore you could devote more manpower to the fight if you will and substitute for contractors?

MR. SPIEGEL: Absolutely, but that costs more money.

MR. WALKER: But that comes back to the issue of focusing on core, not costs. It's facts and circumstances and don't let cost deceive you.

MR. SPIEGEL: It goes back to the strategic planning point and every service is organized differently. What might make sense for one service may not make sense for another. There are logical force management reasons why they are organized that way.

MR. SOLOWAY: When you've looked at cost of contractor support particularly on the battlefield, the Balkans and other places, I think the experience has been rather exceptional and most agree. I was there doing an assessment.

Do you look at the cost of reserve call-ups and the trickle down cost to the economy? For instance, when I have to call up a whole unit of pilots, what does it do to the local economy, the small businesses that are supplying the people for 90 or 180 days and so forth, so you can really get a total cost picture?

MR. SPIEGEL: I don't know that has ever been done. We've been working with the U.S. Chamber of Commerce on a lot of employer support kinds of issues like that but certainly I'm reflecting an organizational and institutional bias when I tell you the cheapest manpower available is going to be the reserve components, that if you may need something in a logistics kind of function but don't need it on active duty, if you put it in the Guard or Reserve, you're looking at an opportunity to bring the best business practices from industry where this guy works 50 weeks a year and the military training he receives two weeks out of the year. That is a force management issue, not an outsourcing issue, as to where these kinds of functions can best be done.

Clearly, when you look at a theater like Bosnia, or if you look at a past hostility; suppose we redid Desert Storm and you had to rebuild Kuwait again, do you want to keep the military there when they want to go home, do you want to keep the Guard and Reserve there when the civilian employers are screaming to get them back? That's a perfect opportunity once the theater is stable to use contractors but during the actual war fight itself, I would argue it is not.

MR. HARNAGE: I think I understand part of your concern. When a commercial activity study is taking place and there are military people within that commercial activity, the full cost is not being realized because they don't count the military having to be reassigned, but just

count the civilians actually leaving. That could be a threat to you.

We do have military people performing duties within what could be classified as a commercial activity. If we do away with all those, the concern would be in time of war or national emergency, you would not have that skill needed on the front line because you've eliminated it with no place to assign the military personnel. Is that your concern?

MR. SPIEGEL: That's true. If you're a maintenance guy and you've done a tour overseas or in a Force Com kind of unit and you're keeping up your maintenance skill, and then it's time to move to another assignment, there's a logic to keeping you in a maintenance job. That may require you go into an activity that's a commercial-like function where there's going to be primarily civilians. That's a force management tool but I think as we look at competitions, we just ensure there are sufficient billets where people can maintain their skills without saying there is no room for you anymore, so therefore, we're going to eliminate this maintenance job. There has to be some way to come up with a teaming kind of concept where you might have a function be done by various components of different kinds of manpower where you maintain or should maintain stuff not be forced to be a finance guy simply because there is no other job.

MR. HARNAGE: Ms. Sanchez, I really appreciate your being here today and your testimony. I believe you're the only real customer that has testified today. I know a lot of HUD employees and they've been fighting your battle too but unfortunately it's been falling on deaf ears.

John, in your mapping, are you saying all the mapping should be privatized, that the government shouldn't be doing any mapping? I'm concerned because even though mapping sounds fairly simple, it does have a national security part to it.

MR. PALATIELLO: There are activities that are national security oriented that would fall within any reasonable definition of inherently governmental. Do you do it on a wholesale basis? The answer is no, but I would point out there are agencies both in the Defense Department and the intelligence community that do use the private sector for a lot of mapping and mapping related activities even as we speak today. Both in a monitoring sense in a time of peace and also if there is a mobilization, there would be a need to call on contractors to help support a war effort.

One model we often point to is the Corps of Engineers that has a very small core capability but they leverage that by contracting out better than 70 percent of

their work. Why do they do that? They have a ready cadre of contractors they can call on who are experienced at doing work for the Corps of Engineers so that in the time of national emergency and a time of mobilization, they can draw on that capability and use it. They don't have to train it, they don't have to get them used to working for the government, they don't have to educate them on government standards. They are working in times of peace so that they are ready and available in a time of war. That's a model we think ought to be pursued.

Look at a broader, strategic paradigm as to what it is we as taxpayers and citizens want our government to do for us that only the government can do and what is it that we can have the private sector do to serve this country and engage in a free market economy.

MR. WALKER: I respectfully suggest we should still be here even if we could calculate this number. We ought to be able to calculate costs. The government doesn't do that well and we need to be able to do that. At the same point in time, I think we've all said cost is important but it's not everything, so there are a number of other issues that have to be focused on in addition to costs. So I think it is important but it's not everything.

With that, I'd like to thank this panel and see if we can have our final panel come up. I'm going to plead for the final panel to stay to the three minute time frame since were supposed to adjourn at 3:15 p.m. Since you've waited, we wanted to make sure you had your opportunity.

Mr. Saffert, please go first.

MR. SAFFERT: My name is Chris Saffert, Legislative Director for ACORN. I'm filling in for Katie Fitzgerald today.

ACORN is the country's largest and oldest grassroots community organization of low and moderate income families, with 125,000 member families in 40 cities. Since 1970, we have been organizing in low income communities around bread and butter issues such as affordable housing, equity in education and living wage jobs. For six years, ACORN has been a leader in the living wage movement, having passed living wage ordinances in nine cities and currently leading coalitions in six additional cities.

In 1998, ACORN established the National Living Wage Resource Center to provide support to the growing living wage movement nationwide. It is our leadership in the living wage movement that prompts our testimony today.

Since 1994, community organizations like ACORN, labor unions and religious leaders have formed powerful new

coalitions to win local living wage ordinances in more than 60 cities and counties across the country such as St. Louis, San Francisco, Boston, Oakland, Chicago, Miami, St. Paul-Minneapolis, Los Angeles, Denver, Detroit and Milwaukee.

Currently, there are over 75 living wage campaigns underway in cities such as Santa Barbara, Syracuse, Sacramento, Pittsburgh, New Orleans, New York City and Little Rock, as well as efforts in State legislatures in Maine, Washington, Kentucky and Illinois and college campuses like Harvard, Brown and Johns Hopkins.

These ordinances require private businesses that receive public money to pay workers living wages. Commonly the ordinances cover employers who hold large city or county service contracts to receive substantial economic development assistance from municipalities or counties. They are based on the principle that all full-time workers should be able to support their families above the poverty line, \$17,650 for a family of four, and that public money should not subsidize poverty jobs.

Research and experience with living wage laws already on the books demonstrate that these measures benefit low-income workers and their families without causing harm to businesses or busting budgets. Low income workers who stand to benefit from living wage laws are those hit hardest by the grim economic realities that countless American workers must face, the failure of minimum wage to keep pace with inflation, skyrocketing housing and child care costs, lack of health insurance, job insecurity brought on by part-time and temporary work, and a growing income gap between the rich and the poor.

While the living wage movement continues to surge at the local level, the Federal Government remains significantly behind. To address this, Congressman Gutierrez has introduced the Federal Living Wage Responsibility Act and Senator Wellstone is preparing similar legislation in the Senate. These bills take their cue from the growing living wage movement and will require all firms holding federal contracts or subcontracts with at least \$10,000 to pay employees working on the contracts a living wage which is set at the poverty level for a family of four, currently \$8.50 a hour. The bill also ensures the living wage is paid to all direct federal employees.

Simply, we believe that the Federal Government's policy should mirror the simple principle being established across the country by the growing living wage movement that better wages and benefits should be required in turn for profiting from public funds.

ACORN supports a federal living wage for Federal Government contractors. Each year the Federal Government

spends billions of dollars to companies to provide janitorial, cafeteria, security and other services primarily in federal buildings. We must ensure that these taxpayer-supported jobs are not poverty jobs. The Federal Government should set an example for the rest of the country by doing business only with employers committed to paying their workers a living wage, at least enough to raise a family of four above the Federal poverty level.

The panel has to consider the social and economic costs of 10 percent of federal contract workers making less than the poverty level. The federal living wage proposal has an important place in federal law and the Service Contract Act which requires prevailing wages be paid on most federal service contracts. Though many job categories are exempt from SCA and other jobs the local or prevailing wage is well below a living wage. We need to set a wage floor on federal service contracts to ensure our tax dollars are not enriching poverty wage businesses. We need a living wage.

The work of ACORN and allies around the country on the federal living wage campaign will complement and strengthen our efforts to a long overdue increase in the Federal minimum wage. In addition, we support other contracting fairness bills such as the TRAC Act, H.R. 721.

As you discuss what factors should be considered in federal contracting decisions, we urge you to take into account whether or not such work allows those who actually perform it to support themselves and their families with dignity.

Thank you.

MR. WALKER: Mr. Schrader?

MR. SCHRADER: The first step in determining whether a job should be performed by a department or agency needs to be the identification of the mission of that parent activity. The primary mission of the government is policy and oversight. Subsequently, a subsection of that is to provide human services that would benefit people as a whole.

You need to thoroughly review the mission of each agency. One thing you will find is that the agencies themselves within the government have set a precedent for outsourcing. As in private industry, most agencies have wisely chosen outsourcing for their non-line of business support services. There are several major business centers established in government to do that, for example, payroll processing, printing, and HR support services for the agencies. They've proven that outsourcing works.

The next step following the theme of agency

mission is to identify who is doing those services and is it within the scope or mission of the agency. Currently six major departments provide payroll processing for the majority of government agencies. You might ask where in the mission of the statement of these departments does it say they shall provide payroll processing for government agencies?

The argument is made that these business centers are nonprofit, self-financed activities. While the funding for these activities may be laundered through their client agencies, the origination of the funding is still the client agency's budget. Yes, they can and do effectively provide these services. The real question is, with these services readily available today in the private sector, why continue?

Outsourcing these functions is not new. Outsourcing to a commercial vendor is new. What's the difference? Technically and functionally, nothing. I submit the founders of these centers should be given a medal for pioneering outsourcing in government. They saw an opportunity to provide much needed support for the government when there was no centralized administrative procedures available and few private sector vendors offering those services.

They have proven that the non-business line of support for an agency can be provided on an outsourced basis but times have changed. There are extensive and experienced resources available in the private sector that provide those services. Now is the time for your next step. There is no longer a need for 20 different administrative systems including HR systems. Eliminating the redundancy by utilizing today's technology in the private sector will give the government economies of scale and provide much more efficient operations of administrative non-line of business services.

You should look at the issue of privatization of functions. There are several instances where privatization of functions has worked. The end result is the same employees continue to perform those functions as a private entity, thus securing employment for the current employees.

There is no doubt that the government non-line of business function should be the place to start for outsourcing initiatives. The one major point I'd like to leave with you is if the product or service is readily available in the private sector, and functions basically the same, then outsource without delay. The benefit to the taxpayers will be a government focused on the primary function of government.

Thank you.

MR. WALKER: Mr. Sorett?

MR. SORETT: I'm Steve Sorett, an attorney with the law firm of Reed, Smith but I'm here today in my individual capacity. By way of full and fair disclosure I am involved currently in a litigation involving Johnson Controls but I will keep my remarks apart from that.

I will point out for those who are close readers of the remarks, there is a missing page three so with your indulgence, I'll submit page three at a later time.

The fundamental issues we're trying to come to grips with are threefold. The first is I stand personally full square as an honest broker in favor of competition and pretty much in favor of continuing with the A76 process at least in the short term while we consider what might be a better solution.

The TRAC Act, while I understand the motivations behind it, I think is misguided because it would definitely cripple the government's readiness and the ability to carry out service contracting.

The toughest issue I think is cost. In a larger submission I submitted for the record, a draft Law Review article which will be published by the American Bar Association this summer, I point out you have essentially three different systems of costs colliding under A76.

The government contractor community has cost accounting standards in the federal acquisition regulations; the public sector typically is governed by financial accounting standards under the public sector rules; and we look to the JFMIP for that body of literature. Thirdly, because of the fact we have two competing different types of cost systems, the A76 has come up with yet a third system. An example would be the 12 percent overhead, which comes into play. That's what we call unavoidable costs as opposed to fully allocated cost or budgeted costs.

The use of activity based costing as a surrogate to try to come to grips with that is only useful in the very short term because it's an alternative substitute for something that should be there to begin with.

My bottom line recommendation is that we should look to get the JFMIP, the cost accounting standards boards and others from the different camps together and have a rationale discussion where perhaps we can find some common ground on the accounting systems.

Can it be done? I really don't know. I worked in the past with people like Al Tucker, with whom Mr. O'Keefe is a good personal friend, and he thinks it's possible that we can actually get our heads together on this, so I'll leave it at that and encourage you to look at

that for follow-on work.

As to alternatives, I know there is going to be a panel which I will attend in Indianapolis, I do want to put into play for consideration the fact that the use of ESOPs, employee stock ownership plan companies, the use of the Transitional Benefit Corporation in the materials I gave to you, are ways you might be able to achieve the cost savings much more quickly than under A76, while at the same time saving jobs for all the public employees involved as they move to the private sector, while preserving their benefits as if they never left the Federal Government to begin with, even though they are now in a private sector status.

This would also save readiness because it would be keeping people in a ready reserve while they are in this status, so there will be more to come on that next time.

Specific mechanics: a couple of glitches deserve to be mentioned now and we can move on. The first is the MEO currently is subjected to a different set of reviews and standards than is the case for the private sector competitors as you go through the internal review process. I think that is an anomaly and has led to some very poor results in some of the decisions that have been heard by both the courts and GAO.

Second, I think it's very important that the MEO, as they try to capture work, be allowed to partner with the private sector. That should become a matter of public policy, particularly in the areas of information technology where large capital outlays where the government essentially does not recognize the concept of capitalization, the private sector can definitely capitalize, spread out the costs and the MEO can benefit from that type of capability.

We suffer tremendously by not having access to current wage determinations on a regular basis. That has distorted the competitive process. We all discussed the Service Contract Act but it's only good when we have current wage determinations coming from the Department of Labor, a different bureaucracy that neither the DOD nor the private sector community can push.

Thank you.

MR. WALKER: Mr. Wray.

MR. WRAY: I'm Thomas Wray, representing the Military Fish and Wildlife Association, a nongovernmental organization of over 800 members, predominantly DOD employees.

Passage of the Federal Activities Inventory Reform Act in 1998 resulted in identification of over 2,800

positions at 164 Army, Navy and Marine Corps installations that were subject to cost comparison or direct conversion requirements of OMB Circular A76. Additional Air Force positions not listed are under similar consideration.

Included in this list of positions were DOD natural resources managers. This action was taken despite public laws, DOD instructions and congressional intent that clearly articulate the conservation of natural resources under DOD stewardship is governmental in nature and shall not be contracted out. Interpretation of what is government in nature and how one identifies a host of positions considered commercial at an installation are critical.

Federal Procurement Policy Letter 92-1 defines an inherently governmental function as one, among other things, that interprets and executes the laws of the United States. Further, it states that inherently governmental functions include regulatory, commodity sales and contract administrative duties, all tasks common to an installation natural resources manager.

DOD attempts to master actions by bundling natural resources management positions with facilities maintenance and base support functions that are commercial in nature. The current process allows DOD to review their own decisions regarding which positions to review and which to exempt from the process. Ultimate decisions are being driven by arbitrary, numeric goals established by Pentagon bureaucrats far removed from the installations affected by their decisions.

Some decision makers within DOD are convinced the Natural Resources Conservation Program can be effectively run by a handful of government employees at the regional and headquarters level. Day to day management decisions at the installation would be left up to a group of contractors. These same installation contractors would provide oversight to other contractors as over 50 percent of the natural resources work now performed at the installation is accomplished by contract.

There are numerous reasons why natural resources positions are governmental in nature. Natural resources management program objectives are both political and ecological and at times conflicting. We must make value judgments and decisions that commit DOD to courses of action with potential long-term repercussions. Are these decisions to be made by contractors?

Effective contract specifications and quality control of natural resources management is contractually impossible. Government employees provide flexibility for a diverse, natural resources management work that is not possible through product-based contracts. Long term,

adaptive land management projects require staff continuity that is not subject to contracting cycles.

Government natural resources personnel invariably demonstrate a deep level of concern, conviction and even passion for the lands they manage. This intangible would be lost in conversion to contracting.

Natural resources management is not a commercial activity. You cannot pick up the yellow pages and find a listing for wildlife management, Native American consultation, habitat management, or threaten endangered species management. You may find consultants and researchers for these areas but not managers. Nor would these consultants and researchers have the knowledge or experience to demonstrate the compatibility between the installation's military mission and the conservation of natural resources.

It is vital that local, on the ground professional government and natural resources managers be retained on federal lands. Our recommendation is Congress must consider an amendment to the FAIR Act that recognizes natural resources as a long term investment for our Nation's future and that all natural resources positions are inherently governmental and shall not be subject to commercial activity review, outsourcing, privatization or any successive program that would convert these functions to the private sector.

Thank you.

MR. WALKER: Mr. Wright?

MR. WRIGHT: My name is Dennis Wright, Director of Marketing with Brown & Root Services. I feel like I'm giving the benediction and everybody is waiting for the final amen.

Brown & Root is a division of Kellogg Brown & Root, a Haliburton company, one of the largest commercial services company's in the world. Our experiences span the commercial oil and gas services market to supporting our deployed forces in the Balkans, the largest field operations support contract in DOD and one referenced several times this afternoon.

I have taken a different approach to convey a message you have not heard today, one that the panel needs to consider if you expect meaningful competition regardless of the outcomes of your panel.

The present, A76 commercial activities program has lost its attractiveness to industry. Let me put this in perspective. No longer is the government the only market for contracting out services. Today, many commercial

businesses are looking for outsourcing services. We're in a target rich environment. For example, Ft. Leavenworth's outsourcing effort received no bids as several others have also experienced a lack of interest from industry.

Most companies like Brown & Root have a finite bid and proposal budget. The figure is set by revenue base and prescribed G&A rates. Our B&P budget is not unlike a government, operating budget that we set a plan and adhere to that plan.

As a publicly traded company, we are obligated to our shareholders to make a return on their investment. We must make wise decisions on where and how we spend our money and what we will bid on. Today, the A76 commercial activities program is not a wise investment.

At this point, I'd ask those of you that have the book would look on the second to last page of the book where there is a matrix that I will refer to that is clearly summarized.

For a large, complex, multifunction A76 procurement, a company can expect to spend between \$250,000 to \$750,000 of their bid and proposal budget. This expense will be assessed against other pursuits both public and private. The pursuits with the highest probability of success with the best overall anticipated return will then make the pursuit plan.

Let me assess what we have seen to date in the A76 program. First, the requirement and the contract structures are often vague. For example, Pensacola Naval Air Station started out as a single, multifunction opportunity, then was split into thirds and ended up being segmented into eight parts that vacillated between a five and three year period of performance. Installations are reluctant to share or promulgate meaningful workload metrics to help contractors develop their proposals.

In addition, acquisition schedules routinely slide. As a pursuit begins, the cycle stretches further as changes and requirements multiply. Guam Naval Station, for example, had 27 amendments. The government work force is biased against contractors. Government employees are led to believe that the contractors are going to do away with their jobs or grossly underpay them. They are psyched. They organize outside the gate when you show up for industry day with signs of protests.

Competition is fierce. You go up against three and at perhaps five or more competitors. This means you have a 20 to 33 percent probability of beating them straight up. For argument's sake, I've assigned a 30 percent probability of a win. After a lengthy written proposal in addition to orals, multiple BAFOs, the

contractor downselect must face off against the MEO.

Before the cost comparison is conducted, there is a high probability of protest. Now the attorneys engage. Protests costs are not typically included in your bid and proposal budget. The cost comparison is then conducted and we now know from GAO that 57 percent of the competitions today result in retention by the government or conversely, industry wins about 40 percent, not surprising with an uneven playing field and a built-in \$10 million or 10 percent cost advantage.

If you win in today's environment, it all but guarantees an appeal by the government union, again resulting in legal fees and time clocks running. Aberdeen is perhaps the benchmark in how not to do it.

To summarize, you anticipate tying up perhaps as much as three quarters of a million dollars for up to three years with an overall 12 percent probability that you might win. What would you do? Today, too often the answer is no bid. To some extent, the market forces may make A76 moot.

In the short term, what can you do to fix it? First, I'd look at what you did in acquisition reform of weapons systems and hardware procurements. Learn from those lessons. Revisit the MRD 916 and the merits of consolidation of contract administration services. Today there is no single face to industry to address contract management issues and problems. I encourage you to direct government agencies to delegate contract administration to DCMA under FAR Part 42 at least for major and/or complex multiple year awards.

Second, foster legislation and reform for how the government acquires services with a goal of longer contract terms, shorter procurement lead times, and more emphasis on performance based contracts and incentive type contracts. That will allow industry to accomplish the goals of putting dollars in the hands of small businesses by putting the onus on prime contractors to achieve higher distribution of dollars to small businesses.

To effect reform of the acquired weapons systems, we had FASA and FARA, I believe today the time has come to have SARA, Service Systems Acquisition Reform Act. I encourage the panel to review three additional written statements I submitted previously for your consideration. Each of these documents goes into much greater detail and specificity with examples and quantifiable savings and more definitive explanations and where they come from and additional recommendations for your consideration.

Thank you for your time.

MR. WALKER: Thank you.

Questions? Pete?

MR. ALDRIDGE: Mr. Wright, can you give us an average of how long it takes once we decide to do an A76 competition until the award actually occurs?

MR. WRIGHT: Probably three years is a reasonable term. You cannot start at the time CBD is out. If we have not started about a year to 18 months before that, tracking of when it is and the more information the government can give us allows us to plan the bid and proposal budget of where we would allocate those and which pursuits we would pursue.

From the time we set our budget as to what we think we're going to pursue, it may be 18 months out, it would probably be three years.

MR. ALDRIDGE: That seems to eliminate any small business from even competing at all.

MR. WRIGHT: I think if you had a small business here, they would have some slightly different variances but the answer would be very similar to what I just shared.

MR. FILTEAU: Mr. Wright, I know Brown & Root does a lot of commercial work. What would you say the average closure time on a commercial deal is from the time you first find out about it until the time you have a contract?

MR. WRIGHT: Eighteen months, 12 to 18 months from the time you start dialogue with the customer until the time it's done. I'd also like to point out from the time you sign the contract to execute, looking and contrasting how the Navy acquires aircraft carriers with a \$5 billion procurement that takes 5 to 7 years to produce, contrast that with the Barracuda Kurtinga Oil Field off the coast of Brazil from the time we signed the contract to first oil is 25 months, that's in deep water with underwater manifolds, pipelines, all the services in 25 months because of the time value of money.

MR. TOBIAS: Mr. Wray, I heard you say the passion for the land you feel would not be present if this service were contracted. Did I hear you correctly?

MR. WRAY: Yes.

MR. TOBIAS: Could you share with the panel why you believe that to be true? What is different that leads you to that conclusion?

MR. WRAY: Many of the natural resource managers like myself, those who came before us and those that will come after us spend many long hours on these lands, feel a personal responsibility for these lands, feel personal

pride in what we do there. We do not feel that type of involvement would occur if there were contractors in similar positions.

MR. TOBIAS: You're making the argument that your work actually is inherently governmental. You've cited a lot of support for that conclusion. What would you recommend to this panel to sort out those questions for the future?

MR. WRAY: Our recommendation was that the FAIR Act be amended and that natural resources positions within the Department of Defense be exempted like the Sykes Act and like the DOD instruction and like congressional intent has already articulated.

MR. TOBIAS: I'm asking a broader question. That's the answer to your specific question and I'm asking on a broader basis, you've been the second or third person who has testified on the issue. Mr. Nero, the Librarian at NLRB testified before and said, this is a job that ought not be subject to the FAIR Act.

I was thinking, is there a better process for sorting this out than exists today that you might recommend?

MR. WRAY: I feel very strongly that government employees should be managing the natural resources on Department of Defense lands, so I would state what I stated earlier.

MR. CAMM: Mr. Sorett, you suggested we might consider allowing MEOs to partner with private firms as part of their proposals. In the most recent public/private depot competition, such partnerships were attempted. Is that the sort of thing you have in mind? If so, could you give us some thoughts on how that might be done in A76?

MR. SORETT: I'm not aware of the specifics on the depot. I read about it in the press but wasn't privy to what actually took place. In general, I'm suggesting where you have an MEO faced with a challenge because of capital equipment, IT, anything which is a large ticket item, that would automatically put the MEO at a disadvantage, in cases like that, the MEO ought to be able to avail itself of what's in the private sector by actually partnering with a private sector firm in the competition.

It's not something right now that is specifically endorsed or prohibited, so it falls on each activity to decide for itself. It's as much a procurement call as anything else. I thought we should just legitimize it and recognize it for what it is. What it does to the MEO, while it would help them in their competition, it also means less positions survive because there will not be room

at the table for the private sector partner. It does pose a different dynamic of how to accomplish the competition.

MR. CAMM: In the United Kingdom, they've been doing the sort of outsourcing and sourcing reviews we're talking about here for a long time. Now it does this fairly routinely. Are you familiar with any of that?

MR. SORETT: Yes, I am.

MR. CAMM: Could you relate that to what you have in mind?

MR. SORETT: There they have the PFI Program, essentially project finance driven. They have legitimized the notion of bringing in private sector resources as part of the competition, also addressed the issue of pension portability through the Transitional Benefit Corporation, so they are further down the line in terms of how you build protections for the employee and get a better bang for the buck for the overall effort. It's a more rational system in that sense. I'm not going to say I endorse everything going on but there are lessons to be learned over there.

MR. HARNAGE: Mr. Sorett, did I hear you say you're going to be at the next two panel hearings?

MR. SORETT: Yes, sir.

MR. HARNAGE: As a witness?

MR. SORETT: I've asked your indulgence to do that on different matters.

MR. HARNAGE: On the pension portability, that's a big subject and I don't want to open it this late in the day but I have some concerns about the cost of portability of the pension because there are some advantages to the current pension system when someone leaves the government. The government contribution to that pension does not follow them, so the pension plan is a little more solvent than it would be if that money followed them.

In making the pension portable, how would we overcome that additional cost to the participants?

MR. SORETT: I'll answer this briefly because of the shortness of time. In essence, as the employee moves out of government into either a nonprofit or for profit organization, the receiving organization, the new employer, contributes to the OPM account.

MR. HARNAGE: I understand that but we have an employee now that would leave and the government's contribution would stay in the plan and therefore be available for future retirees making it more solvent. That

employee would never be able to draw that money but now we're going to make that money permanently available to this individual who will at some time retire under that plan which previously wouldn't have had that ability. There has to be an associated cost to that because that's going to require additional funds to be put into the program.

MR. WALKER: Do I understand you're talking about service portability not asset portability, you have to keep in mind the civil service retirement plan is not funded, it's a naked promise to pay. There are no hard assets behind it. I thought I understood you were talking about they would continue to be covered under the government's plan but the private sector employer might contribute money to the government.

MR. SORETT: That's correct.

MR. WALKER: In order to fund the service costs. From the individual's standpoint, they would have service portability. They wouldn't get a pension until they actually retire, they wouldn't get a lump sum that otherwise they might spend.

MR. HARNAGE: I'm not talking about a lump sum; I'm talking about Employee A has 10 years with the government but is only 35 years old and not eligible to retire. They leave the government service and can withdraw only what they put in it but there is a contribution by the government that stays in the plan, which is part of the funding.

Employee B with the portability goes outside the government but still has access to that government previous contribution and their retirement will be based upon that contribution. Therefore, that money becomes used by that individual rather than others which is going to require some additional funding.

MR. SORETT: I don't believe it would but again, because of the shortness of time, I think this is something it might be better to bring up in the Indianapolis meeting.

MR. WALKER: I think in fairness, this is a very important issue that Bobby has raised and I think represents one of the barriers. It's also one of the issues we have to consider unquestionably with regard to government employee interest. It also has bearing on the partnering issue. All too frequently people see the outsourcing as all or nothing, either you outsource everything or you outsource nothing when in reality there could be some combinations in between.

I would ask you to think about that with regard to your future appearances if you will. We'll have to get

some additional information.

With that, if there are no more questions, I'd like to thank this panel, thank everybody who attended today. This is the end of the public hearing.

Our next public hearing will be in Indianapolis on August 8 and San Antonio on August 15.

Thank you.

[Whereupon, at 4:50 p.m., the public hearing was adjourned.]
