

To DOD managers, it's healthy capitalism, but federal unions and some lawmakers aren't pleased.

# The Limits of Outsourcing

By George Cahlink

**V**INCE Gasaway, Air Force deputy chief of competitive sourcing and privatization, did some quick math when he was asked how much money can be saved by opening service jobs to private sector competition. He came up with a dollar figure, but he then thought the better of it and said only that the Air Force would cut the cost of doing that work by at least 25 percent.

"If I give you dollar figure," he said, "then the [Pentagon] comptroller will say, 'Where is that in the budget?'"

As the remark suggests, there are no easy or safe answers when it comes to the status of Air Force efforts to save money by opening

tens of thousands of jobs to commercial competition. At present, USAF comprises 359,000 active duty airmen and 165,500 civilian workers.

The stakes are high for the Air Force, which expects to evaluate 51,500 jobs for possible outsourcing by decade's end. If this move produces monetary savings, the service would be in a position to finance new personnel spaces in areas of shortage, such as security police, intelligence specialists, and combat controllers.

As competition produces savings, "you can invest resources in other priorities," said Gasaway.

Getting the competitive juices flowing has not been easy. The Bush

**“The competitive sourcing initiative is not about saving money for the taxpayers.”**  
—AFGE’s Simon

Administration made reviewing federal jobs for possible outsourcing the centerpiece of “The President’s Management Agenda,” a plan for reforming management of government agencies.

Initially, the Administration planned to open 425,000 federal jobs to contractor competition by the end of 2009. That plan, however, was scaled back, partly because of delays in getting competitions started but also as a result of opposition from lawmakers who fear they’ll lose federal jobs at home and argue too much work is being handed over to contractors.

Now federal agencies are expected to open only about 103,000 jobs to competition—although no timetable has been set. The Air Force has not made any changes in its plans.

Gasaway said the competitive sourcing effort is not simply a way to cut federal jobs and save money. Rather, he said, it is an effort to figure out how the work can be done more efficiently.

In most cases, federal law requires outsourcing to be preceded by a competition between federal workers and contractors in which the result shows contractors offering best value. If that is not the case, then the outsourcing may not proceed. Even when the work is not outsourced, however, federal agencies usually save money because federal employees are forced to become more efficient to compete against the private sector.

### **It’s Capitalism**

Gasaway called competitive sourcing a “capitalistic” approach toward running the government.

Federal-employee unions and their backers in Congress, however, disagree and say the goal of competitive sourcing has nothing to do with improving how well government works.

“The competitive sourcing initiative is not about saving money for the taxpayers,” warned Jacqueline Simon, director of public policy for the American Federation of Government Employees, the largest federal-employees union. “It is about replacing federal employees with contractors and shifting money to the private sector.”

Rep. Solomon P. Ortiz (D-Tex.),

a member of the House Armed Services Committee, said the Administration is taking great risks with its drive to contract out so much work. This, he said, is particularly true in the case of the Defense Department, because contractors could always go on strike. Federal employees, meanwhile, are barred by law from striking.

Gasaway contended that the Air Force is not looking to outsource any jobs that could put national security in jeopardy. “We do the Yellow Pages test,” said Gasaway, explaining that, if the telephone book contains private firms that can do the work, then USAF should consider putting it up for competition.

So far, Air Force job competitions have fallen into a handful of categories—base operations support, information technology support, civil engineering, and some aircraft maintenance. And since 2000, the Air Force has held competitions covering about 21,000 federal jobs.

The military services have been far and away the most aggressive outsourcers of government work, holding more of the so-called A-76 competitions than anyone.

During the Clinton Administration’s eight years, no nondefense federal agency held an A-76 competition. The Pentagon, in contrast, outsourced tens of thousands of jobs in recent years. The intent was clear: DOD wanted to free up money to buy new weapons and finance other vital needs as defense spending fell in the 1990s.

Since 2000, the Defense Department has saved about \$5.5 billion by opening 72,000 jobs to competition, according to Philip Grone, principal assistant deputy undersecretary of defense for installations and environment.

### **The 33 Percent Factor**

Jacques S. Gansler, the Pentagon’s acquisition chief in the Clinton years and now a professor at the University of Maryland, recently conducted a review of DOD outsourcing. His conclusion: By opening work to commercial competition, DOD cut the cost of this work by an average of 33 percent. At the same time, actual performance improved, too.

Of the other services, the Navy has taken the most aggressive ap-

Defense Secretary Rumsfeld has indicated DOD may be about to feel another, even more powerful wave of outsourcing.

proach toward outsourcing. It has, since 1997, opened about 40,000 jobs to competition and saved \$3 billion. The Navy expects to open another 48,000 jobs by 2009 and plow that money back into modernizing the fleet, although Navy officials say that most of the obvious competitive sourcing candidates are gone.

In the late 1990s, the Navy pioneered an idea known as “strategic sourcing,” wherein it sought to avoid competitions and save money by internally eliminating obsolete business practices, consolidating jobs, restructuring organizations, and adopting commercial business practices. The Clinton Administration allowed the Navy and other services to count those savings toward that Administration’s goal of opening more jobs to competition.

The Bush Administration has said strategic sourcing—while something that should be pursued to improve efficiency—could not be a substitute for actual commercial outsourcing.

The Army has been the slowest to open up its jobs, often leaving it to individual bases to decide what work can and cannot be put up for competition. In October 2002, however, the Army announced it would consider outsourcing more than 150,000 positions (nearly two-thirds of all Army civilian jobs), but since then the service has backed off that ambitious goal, allowing exemptions for work such as health care jobs.

Defense Secretary Donald H. Rumsfeld has indicated DOD may be about to feel another, even more powerful wave of outsourcing. He has told lawmakers that as many as 320,000 support jobs could be eliminated from active duty military ranks and transferred to either the civilian side of DOD or outsourced to contractors to free up military slots in areas where the military is short of personnel. So far, defense has not offered a detailed plan for exactly which jobs would be cut from which service.

### **The Depot Rumble**

The military’s in-house weapons repair centers, known as depots, are discussed frequently as candidates for outsourcing. Those repair centers include three Air Force

depots (Oklahoma City Air Logistics Center, Tinker AFB, Okla.; Warner Robins ALC, Robins AFB, Ga.; and Ogden ALC, Hill AFB, Utah) which employ tens of thousands of defense civilians and cost billions of dollars to operate. A federal law, known as the 50-50 rule, bars DOD from outsourcing more than 50 percent of the repair work. The Pentagon has pushed for repeal, but Congressional members have turned down that request in favor of protecting high-paying federal jobs in their states and districts.

Outsourcing critics claim the competitions unfairly favor contractors, while the private sector says federal employees have an edge in winning the work. In truth, the competitions are often evenly split between government and contractor winners as evidenced by two of the Air Force’s largest competitions.

- In 1997, Del-Jen won a \$131 million contract at Tyndall AFB, Fla., to take over infrastructure and communications support jobs performed by 274 civilian workers and 1,086 military personnel.

- In 2002, 313 civilian and 1,146 military personnel at Offutt AFB, Neb., beat out DynCorp Technical Services to keep their operations support, aircraft maintenance, and civil engineering jobs.

The Offutt face-off is often cited as the service’s most successful job competition. “There were no appeals or protests so that gives you a clue that the process was accepted by all as being fair,” said Gasaway. Also, the winning bid by federal workers will cut annual costs of performing the work by \$46 million, mainly by cutting manpower by 58 percent. Air Force officials had hoped for 40 percent savings, but federal employees were able to beat that goal by consolidating many operations, including combining the base’s transportation and supply dispatch centers.

However, other Air Force competitions have run into problems. The General Accounting Office reversed an Air Force decision to award to federal employees a contract for \$198 million in base operations work at Maxwell AFB, Ala. The government gave the contract to DynCorp after finding cost comparisons used in the competition

The White House has threatened to veto any Congressional bills that banned their competitive sourcing effort.

unfairly favored the in-house workers.

The best-known failed competition centered on a \$352 million proposal to outsource work at Lackland AFB, Tex. The Air Force initially awarded the work to a private contractor, a joint venture of Computer Sciences Corp., Del-Jen, and Tecom, but federal workers appealed the decision. USAF overturned the award. Then, the contractor group appealed to the Congressional watchdog agency, GAO, which told the service it should have stuck with its first decision.

Two DOD investigations followed, more appeals were made, and the Texas Congressional delegation got involved. "Lackland was one that just fell apart," said Gasaway, who said both sides were confused about what work was supposed to be covered by the contract. Ultimately, the competition was canceled. Gasaway said a new one will likely be held in the next couple of years.

#### **New Rules**

By then, new rules governing the execution of competitions should be fully implemented. In May 2003, the Bush Administration announced sweeping revisions to the Office of Management and Budget Circular A-76, the federal policy that outlines the rules governing job competitions. Those changes followed an exhaustive review a year earlier by a Congressionally mandated panel, which included members from federal agencies, federal contractors, federal unions, and academia. The panel called for overhauling job competition rules, which were panned as too cumbersome and time-consuming.

Among the changes called for by OMB were: requiring that most competitions be completed in 12 months (often competitions were lasting two years); requiring competition winners, either government or contractor, to set and meet work performance standards; for the first time, requiring federal workers to compete for their work after winning it (in some cases, in as little as three

years after a competition); and allowing agencies to select winners based on factors other than cost alone, a competition method known as "best value." Also, in a bow to federal unions, OMB scrapped a proposal that would have allowed agencies to outsource any federal function with fewer than 65 jobs to contractors without holding a competition, but won the ire of labor by eliminating rules that gave federal workers an automatic 10 percent cost advantage in competitions.

The Bush Administration and lawmakers have clashed over the rule changes. The House has pushed for prohibiting competitions until the provision that would require employees to re-compete for their jobs is eliminated. The Senate has pushed for annual reports for some nondefense agencies on the scope and cost of their outsourcing efforts. In response, the White House has threatened to veto any Congressional bills that banned their competitive sourcing effort. The Bush Administration's decision this summer to hold fewer competitions and scrap specific time frames was due in part to pressure from Congress, as well as a realization that it would take much longer than expected to decide what work could be competed.

Gasaway said the recent changes in A-76 rules would take some time to implement but should ultimately lead to better competitions. In order to meet the 12-month deadline for finishing competition, he said, the Air Force will have to do more preliminary planning. In other cases, rules that will appoint a single person to review private sector and in-house bids should eliminate the confusion that plagued the Lackland and Maxwell competitions. The Air Force is working with the Defense Acquisition University, DOD's internal school for educating procurement managers and contracting officers, to come up with a course that will teach them how to carry out the new competitions. "It's a change, and people will have to go through a re-education process and that will take some time," Gasaway said. ■

---

*George Cahlink is a military correspondent with Government Executive Magazine in Washington, D.C. His most recent article for Air Force Magazine, "Masters of Surge," appeared in the April 2003 issue.*