

**The Defense Department hopes to save billions and improve operations by using private industry for everything from fighter maintenance to food service.**

# The Push to Privatize

By Suzann Chapman, Associate Editor

**I**N THE beginning, the Pentagon's proposal to farm out more and more work to commercial contractors seemed to be one of those rare government actions favored by almost everyone. The honeymoon didn't last long. The move to outsource has become the focus of yet another Washington political brawl.

The Defense Department last year proposed an expansion of outsourcing to maximize efficiency and reduce the department's cost of doing business. Savings were to be used to beef up funding of weapon modernization. The idea was that the military services would employ proven commercial business practices, focusing on their core operations while contracting out many support functions.

Some Congressmen believe that the Pentagon has not clearly identified its core work load and in its move to privatize it runs a risk of undercutting the materiel readiness of the force. Critics are expressing deep opposition to a major element of the DoD initiative—"privatization-in-place" of Air Force mainte-

nance depots in California and Texas.

Under this plan, USAF would look for one or more contractors to take over operations at USAF's San Antonio Air Logistics Center at Kelly AFB, Tex., and Sacramento ALC at McClellan AFB, Calif., while hiring much of the current skilled work force at each location.

The critics claim that this ignores the intent of 1995 Base Realignment and Closure (BRAC) provisions, which is to raise the efficiency of USAF depot operations by shutting down two of the service's five ALCs and transferring their work to other DoD facilities. They charge that the act of preserving jobs at the two logistics centers is a ploy by the Clinton Administration to strengthen its political support in vote-rich Texas and California.

Outsourcing—the act of employing outside providers to conduct a variety of support functions—has been used increasingly over the last twenty years by both the commercial and public sectors. In the public sector, the concept of outsourcing includes “privatization”—that is, the transfer or outright sale of government assets to a private company, which then performs the support work once conducted by military or civil service employees.

### The Allure

The appeal of outsourcing is that it enables a company or government

agency to concentrate on “core” operations—those that are unique and truly vital to the organization. Having another organization handle important but routine tasks, such as payroll, inventory management, software maintenance, transportation, and the like, frees management to focus on improving quality, responsiveness, and efficiency while lowering costs.

In an April 4 Pentagon briefing on the subject, Deputy Defense Secretary John P. White pointed out that the US is in the midst of an outsourcing boom and that new industries have grown up to meet the increasing demand for the specialized services the boom has created. Secretary White estimated that those services would generate a total of \$100 billion in sales in 1996.

The Defense Department for nearly two decades has used outsourcing and privatization to provide some support functions, in line with Congressional direction to use commercial services when that is more economical and efficient. For example, the Pentagon reports that, as a result of one Defense Logistics Agency privatization initiative, pharmaceuticals reach customers seventy-five to ninety percent faster than was the case before privatization. Moreover, the drugs are twenty-five to thirty-five percent cheaper.

Mr. White stated that, from 1978 through 1994, defense agencies overall had reduced annual operating costs

by about thirty-one percent through competition, outsourcing, and privatization. This translates to savings of roughly \$1.5 billion per year. (See chart, below.)

The Pentagon's recently published privatization roadmap, “Improving the Combat Edge Through Outsourcing,” estimates that the Defense Department today outsources twenty-five percent of base commercial activities, twenty-eight percent of depot maintenance, ten percent of finance and accounting, seventy percent of Army aviation training, forty-five percent of surplus property disposal, and thirty-three percent of parts distribution.

USAF has been an active participant in outsourcing for a long time. The Air Force has contracted out for maintenance for the KC-10 tanker and F-117 fighter aircraft and for software on the latest B-1 and B-2 bombers. Private contractors have run the technical functions at Air Force Materiel Command's Arnold Engineering Development Center, Arnold AFB, Tenn., since its dedication in 1951.

In addition, private contractors for thirty-five years have conducted all support functions at Vance AFB, Okla., part of Air Education and Training Command. Before other AETC bases began contracting out functions, Vance produced the same number of new pilots but at an annual cost several million dollars less than the other bases spent. Many

## Savings From A-76 Competitions, 1978–94

Service	Competitions Completed	Total Annual Savings (FY 1996 \$ millions)	Percent Savings
Army	510	\$470	27
Air Force	733	560	36
Marine Corps	39	23	34
Navy	806	411	30
DoD Agencies	50	13	28
<b>Total</b>	<b>2,138</b>	<b>\$1,478</b>	<b>31</b>

Source: DoD

Private-sector entities won about half of these competitions, run under Office of Management and Budget Circular A-76—the federal guidance on obtaining commercial services from the private sector through head-to-head competition with the government sector. DoD said that it takes up to twenty-four months to complete simple cost comparisons and forty-eight months for complex ones and costs hundreds of thousands of dollars—providing a “strong disincentive” to outsourcing. OMB recently streamlined its cost-comparison procedures.

## Newark Tests Privatization-in-Place

At Newark AFB, Ohio, a seventy-acre facility about thirty miles northeast of Columbus, private industry soon will take over the depot-level maintenance and repair activities once performed by Air Force civilian employees. This will mark the first practical application—and will be a key test—of the Pentagon's new privatization-in-place efforts.

Beginning October 1, 1996, Rockwell International will run the Aerospace Guidance and Metrology Center (AGMC) and Wyle Laboratories will operate the metrology laboratory.

As part of their packages, contractors must offer "the right of first refusal to federal employees affected by these awards," according to USAF officials. About 1,400 civilians work at the base. The Air Force has already found other government jobs for about 200 civilians and estimates that the two contractors will employ about 1,100 people.

The Newark center has performed repair and cleaning of guidance systems for ballistic missiles and navigation systems for ninety-five percent of all USAF combat aircraft and some Navy aircraft since its activation in 1962. The lab conducts precise measurement and calibration functions.

Robert D. Paster, president of Rockwell's Autonetics and Missile Systems Division, said, "We clearly understand that the defense readiness of virtually every weapon system in the Air Force inventory is dependent on the success of this program." He added that Rockwell plans "to utilize the highly skilled AGMC work force already in place."

Rockwell has more than forty years of experience in production and repair of guidance systems, according to a company news release, and has "developed more than ninety percent of the hardware, test equipment, and procedures currently in use at AGMC."

to produce another \$13 billion in savings.

Pentagon officials have repeatedly stated that force-structure cuts have far exceeded cuts in infrastructure and that the four BRAC rounds have targeted only about twenty-one percent of infrastructure for closure. Based on those numbers, one might expect that additional infrastructure reductions via outsourcing and privatization initiatives would generate solid support, but that has not been the case.

At issue are the privatization-in-place efforts under way at Kelly and McClellan, at a time when documented excess capacity exists in the remaining defense depots.

In July 1995, when he accepted the BRAC commission's decision to close two of the Air Force's five maintenance depots, President Clinton announced that the service would privatize-in-place most of the two depots' operations. The Administration estimated it could save about fifty percent of the jobs at Sacramento ALC and approximately two-thirds of the jobs at San Antonio ALC.

Not surprisingly, lawmakers from California and Texas urged support for the plan.

### The Depot Caucus

Critics of the Administration plan include members of the Congressional Depot Caucus, featuring lawmakers whose districts include USAF Air Logistics Centers in Utah, Oklahoma, and Georgia, and a labor union representing government workers at those three depots. They recommend transferring work done at McClellan and Kelly to Warner Robins ALC at Robins AFB, Ga., Oklahoma City ALC at Tinker AFB, Okla., and Ogden ALC at Hill AFB, Utah. The union has filed suit against the President to prevent privatization-in-place at Kelly and McClellan.

One caucus member, Rep. James V. Hansen (R-Utah), took Air Force Secretary Sheila E. Widnall to task at a March hearing of the House National Security Committee. Mr. Hansen questioned the legality of the Administration's move to keep the work going at Kelly and McClellan, citing the views of two BRAC commissioners who agreed with him. He claimed that privatizing-in-place amounts to refusing to

AETC bases now contract out aircraft maintenance and other functions. Contractors also operate most Air Force bases overseas.

Col. Michael A. Collings, chief of the Air Force's new outsourcing office, stated that USAF is the outsourcing leader within DoD. He told an Air Force Association symposium audience in May that the Air Force savings from outsourcing and privatization over the past twenty years range from ten percent to forty percent. Those savings netted nearly \$600 million per year.

According to Colonel Collings, the Air Force is reviewing all USAF manpower slots to determine if they are inherently governmental or militarily essential. He thinks that some of those manpower slots will change and specifically mentioned current legislative policies that do not permit outsourcing such functions as fire-fighting and some security.

### Bills Coming Due

Defense Department officials emphasize the need to do more outsourcing to help pay the hefty modernization bill that will be coming due during the next decade.

Secretary White, testifying before the House National Security Com-

mittee's Military Readiness Subcommittee in April, said that the Defense Department must gain additional savings from support activities to complement projected savings from BRAC actions and the Pentagon's ongoing acquisition reform measures. Those savings will enable the services to maintain readiness and increase funding for modernization, he said.

To emphasize that any savings would directly benefit modernization, Mr. White told the subcommittee, "I signed a memorandum on February 26, 1996, stating that the DoD components will not have their outyear budgets reduced as a result of the savings they create through their initiatives and that these savings should be dedicated to modernization."

Pentagon officials estimate that they need to commit about \$60 billion per year over a decade to fund planned modernization, up from about \$40 billion proposed for Fiscal 1997. One source of additional revenue: base closings. DoD projects that, when the totals are in, the four rounds of BRAC actions will save about \$6 billion per year, all of which would be plowed back into modernization accounts. The department expects current acquisition reform measures

close the facilities as the commission ordered.

In response, Secretary Widnall contended that the Air Force would carry out the BRAC requirement and that "those bases will be closed." She added, "I mean, 'closed' has a meaning. They will be closed." She explained that the act of closing a base involves deciding how to transfer assets to the community for reuse and stimulation of commercial development.

"We have unique assets at those depots," said the Secretary, "so we are anxious to turn those over in a form where they can be useful for the commercial sector."

At a Senate hearing in April, Sen. James M. Inhofe (R-Okla.) questioned Secretary White on the same issue. Mr. White submitted a letter signed by the BRAC commission chairman, former Sen. Alan J. Dixon (D-Ill.), for the record. The July 8, 1995, letter stated that the commission authorized for Kelly and McClellan "the transfer of any work load, other than the common used ground communication electronics work load, to any other DoD depot or to any private-sector commercial activity, local or otherwise, including privatization-in-place."

Senator Inhofe responded that the commission vote was six to two, not unanimous.

At the same hearing, but expressing the opposite viewpoint, was Sen. Kay Bailey Hutchison (R-Tex.). She prodded Gen. Henry Viccellio, Jr., AFMC commander, to explain why he thinks it would be risky to move the Air Force's depot work—and Texas jobs—from Kelly to another government depot. He said that, based on his experience with other closures, a readiness risk would arise with the inevitable break in production, which could be anywhere from four to fourteen months.

Mr. White and General Viccellio also responded to a claim that the remaining three ALCs all have excess capacity and could efficiently absorb more work. They pointed out that, under the Defense Department plan, the Air Force's remaining three depots would actually gain work from the closure of Kelly and McClellan. The General testified that some work—such as materiel management, core work, and some specified by law—will remain or-

ganic and transfer to Air Force depots.

"If you ask me to prognosticate where we're headed," said General Viccellio, "I would guess . . . we'll see somewhere between 5,000 and 7,000 workers' worth of work moved to the remaining depots, which is part of the reason I feel [the depots will] grow."

### Down 25,000

Air Force officials point out that excess capacity at the depots is a function of facility and equipment capacity, rather than the size of the work force. The service has reduced its depot work force by 25,000 over the past few years.

According to General Viccellio, private companies have already announced their interest in not only performing some depot work but in using some of that excess capacity at the depots in Georgia, Oklahoma, and Utah.

Members of the Congressional Depot Caucus also took exception to DoD's intention to increase the amount of private competition for depot work, emphasizing what they saw as the potential risk to readiness of handing off even more maintenance work to private contractors. They opposed proposed changes in legislation, particularly the so-called sixty-forty rule and the \$3 million rule.

With enactment of Section 2466, Title 10 of the US Code, Congress established a requirement that at least sixty percent of the Defense Department's depot work will be performed by federal employees, meaning that a maximum of forty percent remains for private industry. Section 2469 of the same title requires that the government hold competition between the private and public sectors before the Pentagon can transfer any depot work load of more than \$3 million to the private sector.

In its outsourcing plan, the Defense Department stated that the sixty-forty rule limits its "ability to manage depot maintenance in an efficient and cost-effective manner." DoD also stated that it favored permitting its depots to compete only when private-sector competition was inadequate.

Many in Congress object to these Defense Department views, and they worry that the military is farming out too much of its key work. In

introducing the outsourcing plan, Mr. White emphasized that the Pentagon and the individual services were still in the midst of identifying core work loads and reviewing potential candidates for outsourcing. He further stated in Congressional testimony that the "bottom line, obviously, is national security—the readiness and capability of our forces."

"We are not talking about wholesale outsourcing," he added. "We are talking about measured changes where we've been able to evaluate what the opportunities are, what the cost-savings are, [and] what the benefits to us are in terms of our core competencies, in terms of the technological change that we need, and in terms of the flexibility that we need."

General Viccellio also addressed the issue in testimony. He said, "There are those who feel additional involvement by the commercial sector in defense depot activity puts America's security at risk. I don't agree."

"[The rule of] sixty-forty and its assurance of predominant organic capacity may have served us well in a bygone era of large forces, the threat of global conflict, and push sustainment requirements, but in an era focused on responsive support and day-to-day readiness, it stands as an impediment to sound business management and inhibits initiatives that could keep today's smaller forces modern and ready."

General Viccellio emphasized that the armed forces support "outsourcing appropriate additional depot activities," adding, "When I say 'appropriate,' I mean to do so after a risk-and-readiness analysis and in those instances when doing so represents the best value to the Air Force."

Congress is not ready to forgo the sixty-forty rule entirely. The latest indication is that it may change to fifty-fifty.

The San Antonio *Express-News* quoted Air Force Chief of Staff Gen. Ronald R. Fogleman as saying that the compromise was important, but it was not the final answer.

"I see fifty-fifty as a necessary first step," he said. "We have to look beyond fifty-fifty and demonstrate the value we can get from outsourcing work loads." ■