



Public/Private Competition and Collaboration for Non-Inherently- Governmental Work:

The Honorable Jacques S. Gansler, PhD*

*Professor and Roger C. Lipitz Chair
Director, Center for Public Policy and Private Enterprise
School of Public Policy
University of Maryland*

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** Dr. Gansler served as Under Secretary of Defense (Acquisition, Technology and Logistics) from 1997 – 2001.*



“Competitive Sourcing”/(Public/Private Competition via OMB Circular A-76)

- ➔ Work that is not inherently governmental
- ➔ Allows for public sector to compete with private sector for work
- ➔ Also allows public and private sector to partner (as a competitive team)
- ➔ Benefits:
 - Government very often wins, but better performance at lower costs is realized, no matter who wins
 - Creates competition in environments that are not normally exposed to market forces
 - “Forcing factor” for “learning” with the existing process; and for improving the process



Concerns Expressed (by those opposed)

➔ Performance will deteriorate.

- Industry will focus on profits, not public needs
- Industry won't be flexible to changing need (e.g. surges)
- Government more experienced in these jobs (so better)

➔ Costs will be higher.

- Government employees are paid less
- And they don't charge a fee

➔ Promised Saving (from the competitions) will not be realized over time.

➔ Small Businesses will be negatively impacted.

➔ Large numbers of government employees will be involuntarily separated (RIFed).

➔ Loss of control by government management

Data Exist To Address Each Of These



Performance Improvements 1st – Then Cost Savings

➔ **NAVAIR Auxiliary Power Unit, Logistics Support Program**
(a public/private partnership, utilizing COTS software) [*Caterpillar software, Honeywell management*]:

- Reliability of each carrier-based aircraft's APU has been increased by more than a factor of ten.
- Reliability exceeded guarantees by more than 25%.
- Dramatic improvements achieved in mean-time-between-failures
 - 300% on P-3 Platform
 - 45% on FA-18A/B/C/D
 - 15-25% on S-3 and C-2 platforms
 - For Afghanistan, surged 50% to fill all demands
- Program savings are difficult to quantify (since there is no baseline)






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Competitively-awarded Performance-Based Logistics - Availability and Response Time Comparisons

Material Availability*

Logistics Response Time**

Navy Program	Pre-PBL	Post-PBL	Pre-PBL	Post-PBL
 <p>F-14 LANTIRN</p>	73%	90%	56.9 Days	5 Days
 <p>H-60 Avionics</p>	71%	85%	52.7 Days	8 Days
 <p>F/A-18 Stores Mgmt System</p>	65%	98%	42.6 Days	2 Days CONUS 7 Days OCONUS
 <p>Tires</p>	81%	98%	28.9 Days	2 Days CONUS 4 Days OCONUS
 <p>APU</p>	65%	90%	35 Days	6.5 Days

Note: "Pre-PBL" is sole-source government and "Post-PBL" is competitively awarded (either to private sector or to a public/private partnership)

*Klevan, Paul, NAVICP, UID Program Manager Workshop Briefing, 5 May 2005
 **Kratz, Lou, OSD, Status Report, NDIA Logistics Conference Briefing, 2 Mar 2004

Concerns



- ✦ Performance will deteriorate.
- ✦ **Costs will be higher, since government employees are paid less and they don't charge a fee.**
- ✦ Promised saving (from the competitions) will not be realized over time.
- ✦ Small businesses will be negatively impacted.
- ✦ Large numbers of government employees will be involuntarily separated (RIFed).
- ✦ The government will lose control



Results of Earlier A-76 DoD Cost Comparisons: 1978 - 1994

	Competitions Completed	Average Annual Savings (\$M)	Percent Savings
Army	510	\$470	27%
Air Force	733	\$560	36%
Marine Corps	39	\$23	34%
Navy	806	\$411	30%
Defense Agencies	50	\$13	28%
Total	2,138	\$1,478	31%

*Defense Reform Initiative Report,
Nov 1997*



DoD “Competitive Sourcing” (A-76) Demonstrated Results 1994 – 2003***

Winning Bidder	Number of Competitions Won	Civilian Positions Competed (Excluding Direct Conversions)	MEO FTEs* (Excluding Direct Conversions)	% Decrease from Civilian Authorizations to Government MEO FTEs
In-House	525 (44%)	41,793	23,253	44%
Contractor	667 (56%)	23,364	16,848	28%**
Total	1,192	65,157	40,101	38%

*MEO= Most Efficient Organization (as proposed by government workers)

**Even for the competitions won by the contractor, the MEOs proposed decreases of 28% in the FTE headcount

***Competitive Sourcing: What Happens to Federal Employees? Jacques S. Gansler and William Lucyshyn, October 2004




Results from 2004 IRS Competitions*

	Number of FTEs Competed	Winner	FTEs Proposed	Reduction
Area Distribution Centers	400	MEO	160	60%
Campus Center Operations and Support	278	MEO	60	78%

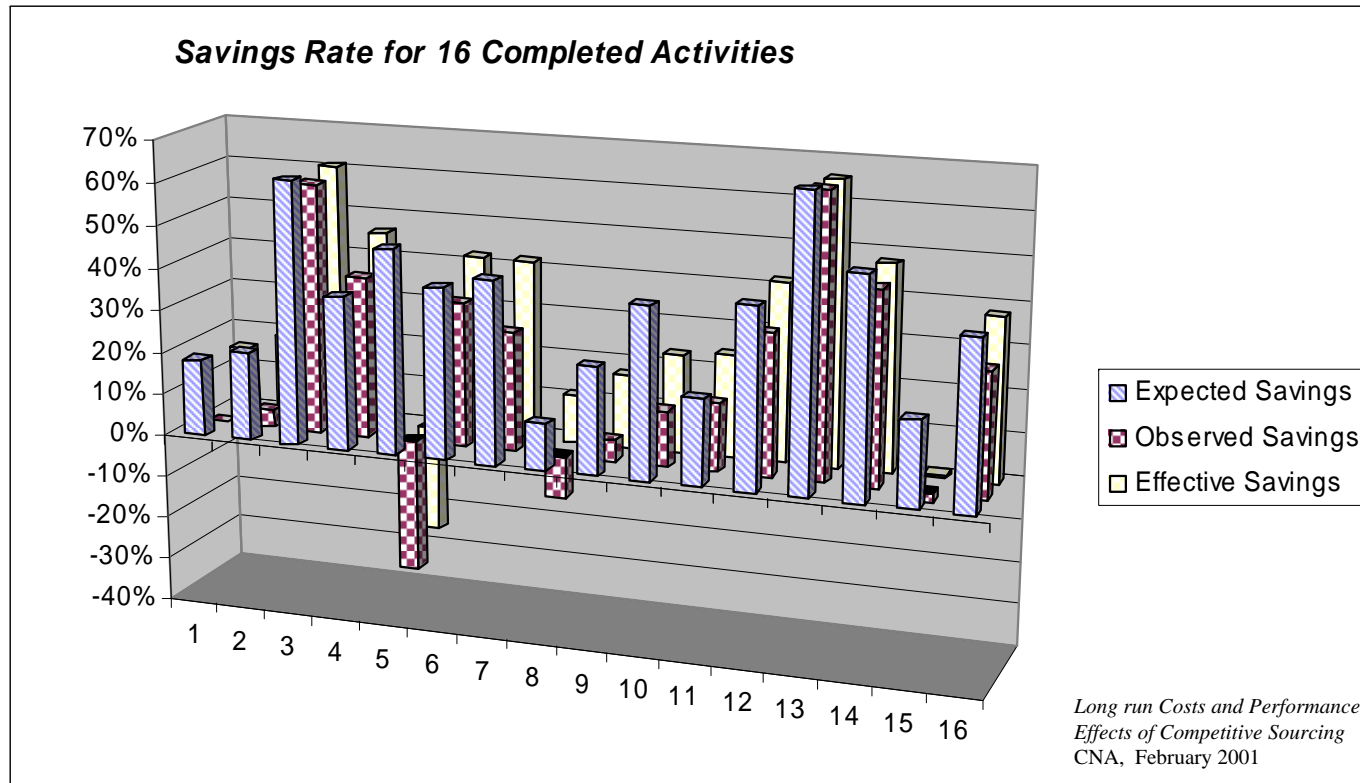
The Government Employee MEO Won Both Competitions With Dramatic Proposed Savings

**The source selection results were released in Aug 2004*

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CNA Study of Long-Run Costs of Competitive Sourcing



Weighted Averages

- ➔ **Expected Savings (as bid by winner – government or private) 35%**
- ➔ **Observed Savings (realized results, including scope & quantity changes) 24%**
- ➔ **Effective Savings (realized results on same scope & quantity) 34%**



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Impact on Small Business

- ➔ Between 1995 and 2001 DoD conducted 784 public-private competitions
 - 79% of all contracts awarded were to small businesses*
 - Additionally, many of the large contracts had requirements for a significant share to go to small businesses as sub-contracts.


- ➔ Navy-Marine Corps Intranet and NSA Intranet mandate 35% small business subcontracting
 - 10% must be used for Direct Labor Costs

Advertising Competitions on the World-Wide-Web Has Significantly Increased Small Business Participation. For example, NAVSEA's Seaport E-Business Portal Set a Goal of Assigning 35% of Subcontracted Work to Small Businesses. Also, Seven of Their 20 Multiple Award Contract (MAC) Holders Were Small Businesses.**

**Michael Wynne testimony, 13 Mar 02*

***David C. Weld, SeaPort: Charting a New Course for Professional Services Acquisition for America's Navy, IBM Endowment for the Business of Government, June 2003*

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Effects on Employees

➔ CNA Study*

- DoD programs found to be very effective in minimizing involuntary job losses
- 40% of employees targeted for “Reduction In Force (RIFs)” from depot maintenance facilities found other DoD or federal jobs; many others hired by winning contractor; and others chose to retire
- **Only 3.4% were actually RIFed**

➔ Department of Interior**

- **Smart planning allowed for 475 positions to be competed without anyone losing their job**

**CNA Report CAB 96-62, Case Studies in DoD Outsourcing, Jan 1997*

***Government Executive, March 31, 2003*

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Loss of Control

“The greatest impediment to privatization by contracting is the fear of loss of control [by government managers].”*

In reality, the senior government managers now have far greater control

- They can use the competitive market to reward or replace, based on measured performance and costs (vs. their lack of control - - or visibility - - in the presence of a government monopoly)

But, the Government Has the Full Responsibility to Manage the Contract and the Contractor (Or They Will Lose Control)

**Based on the multiple surveys at the state and local level (F.S. Savas, Privatization and Public Private Partnerships, Chatham House, 2000, p. 285)*



Old Perceptions Still Persist

- ➔ Performance will deteriorate
- ➔ Using government employees will cost less
- ➔ Promised cost savings (from the competition) won't be realized over time
- ➔ Small businesses will be negatively impacted
- ➔ Large numbers of government employees will be involuntarily separated (RIFed)
- ➔ Loss of control by government management

The Empirical Data Refute All Six of These Perceptions



Summary

Results Show that, No Matter Who Wins the Competition, Performance has Improved and The Cost Savings Average at Least 30%