



## AMC DCSPER News Item



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### Privatization: Part II

*This is the second article in a series on Privatization, intended to keep you informed on this subject.*

"...we are committed to maintaining a modern and ready force. This commitment will require, as planned, increased funding for the modernization of our equipment and systems.

Outsourcing and privatization provide a means to achieve this important objective. By drawing on the abilities of the commercial sector, we can provide more efficient and effective support, focus our efforts on what we do best, and redirect substantial resources to modernization."-Dr. John White, Deputy Secretary of Defense, 26 February 1996

Since the last privatization article (February 1996 edition of the DCSPER Newsletter), the DOD Privatization train has been slowly adding momentum to its long and winding trip from drawing board to reality. DOD, the services, and major commands continue their analysis as to which privatization candidates make the most sense from a business perspective and do not pose an unacceptable risk to our national defense. Against this backdrop, Congressional and public interest mount both for and against the seemingly inevitable privatization of at least some of the missions/services currently performed by DOD employees.

#### **First step: DOD corporate headquarters**

The primary force behind DOD's privatization program is Dr. John White, Deputy Secretary of Defense. Dr. White was formerly the Chairman of the DOD Committee on Roles and Missions (CORM). The CORM was conducted pursuant to the National Defense Authorization Act for FY 94. Issued on 25 May 1995, the CORM Report concluded that: "The central message for DOD...is in the 21st century, every DOD element must focus on supporting the operations of the Unified Commanders in Chief. Everything else DOD does--from furnishing health care to developing new weapons--should support that effort."

The CORM's recommendations were far reaching--across the spectrum of missions and functions performed by DOD activities. The CORM, generally, concluded that outsourcing or privatization was the way to go for both existing and future requirements, particularly for commercial type support activities and depot maintenance.

The immediate opportunity to explore privatization within DOD arose with the BRAC '95 round. Several BRAC '95 recommendations provided DOD with the choice of moving workload (primarily depot workload) from the targeted BRAC site to either another DOD activity or the private sector. Before Congressional consideration of the BRAC '95 recommendations had even been completed, Dr. White, in a 14 August 1995 memorandum, announced the establishment of two Integrated Product Teams (IPTs) and two Tiger Teams to develop policy and provide oversight for the Department's privatization, base closure and reuse initiatives. The IPTs would be responsible for the privatization analysis throughout DOD and the monitoring of ongoing base reuse efforts--to determine opportunities, identify obstacles and develop solutions and strategies for outsourcing government functions in order to allow management to focus on core competency issues, increase efficiency, save money and enhance effectiveness without adversely affecting the mission. The Tiger Teams would assist in local implementation of the privatization efforts at Kelly and McClellan Air Force Bases.

The Privatization IPT subgroups formed in furtherance of Dr. White's memorandum are Base Commercial Activities; Housing; Depot Maintenance; Materiel Management; Education and Training; Finance and Accounting; Data Centers; A-76 Policy; and Personnel Issues. The Privatization IPT is chaired by the Assistant Secretary of Defense for Economic Security with each subgroup headed by the DOD functional office. Subgroup membership includes representatives from the military departments and the affected Defense Agencies. The Army is represented by the Vice Chief of Staff and the Deputy Under Secretary. They have appointed the Assistant Chief of Staff for Installation Management to manage the Army studies and develop the service's strategy and proposals.

The services have been studying each of these subgroup areas and developing service initiatives for implementation subject to DOD oversight. Major initiatives are expected in Commercial Activities. The OSD working group identified 60,000 full-time equivalent spaces in the FY 94 Commercial Activities Inventory as reasonable candidates to study in the near term. Though the Army's share is approximately half, Army has indicated that studying 16,000 spaces is possible. Materiel Management; and Depot Maintenance (as privatization initiatives) for McClellan and Kelly Air Force Bases as privatization prototypes; Letterkenny and Red River Army Depots, as well as the Louisville Naval Surface Weapons Center, are the cornerstones of the OSD privatization plan for depots.

### **Second Step: Congress**

On 4 April 1996, Dr. White held a press conference to announce DOD plans to draw upon the private sector's competitive forces to generate savings for modernization, improve the performance of its support operations, and sustain readiness of U.S. forces. He released to

Congress three reports: "Improving the Combat Edge Through Outsourcing", "Depot Level Maintenance and Repair Workload," and "Policy Regarding Performance of Depot Level Maintenance and Repair."

DOD's plans essentially hinge on Congress agreeing to remove existing legal impediments (repealing statutory provisions that require 60% of depot maintenance and repair work be done in government depots and also mandate competition between public depots and private industry for workloads worth more than \$3 million). At stake for private industry is more than \$13 million in DOD depot maintenance and repair work. Currently, the House and Senate appear to be divided on the issue, with a strong House depot caucus opposed to DOD's plans.

### **Third Stop: GAO**

What are GAO's thoughts on DOD's privatization initiatives? GAO recently released two reports on this matter. The first of these reports, issued May 1996, DOD's Policy Report Leaves Future Role of Depot System Uncertain, concluded that the new DOD policy on the performance of depot-level maintenance and repair for DOD that maintains the core capability is a clear shift to a greater reliance on private sector maintenance capabilities than exists today, and unless further reductions in infrastructure and development of competitive markets occur, DOD depots may become "an economic liability rather than a cost-effective partner in the total DOD industrial base."

The second report, Commission on Roles and Mission's Privatization Assumptions Are Questionable (the draft issued in June 1996), concludes that "The CORM's depot privatization savings and readiness assumptions are based on conditions that do not currently exist for many depot workloads" and "would not likely achieve expected savings." (See discussion on the CORM under the "First Stop").

### **Fourth Stop: Litigation**

The first privatization suit against DOD was filed in March 1996. The lawsuit was filed in federal district court in Ohio. The plaintiffs include American Federation of Government Employees and 14 named current and former Air Force employees. Defendants include President Clinton, Secretary of Defense William Perry, Deputy Secretary of Defense John White, and Air Force (AF) Commanders from AF Materiel Command and Newark, McClellan, Kelly and Tinker AF Bases.

The suit challenges the legality of DOD's decision to put some or all of the workloads of the three AF bases out for bid for performance by allegedly only private sector contractors, thus, in violation of statutory requirements of 10 United States Code.

As the DOD Privatization train continues to wind its way to its final destination, there will clearly be some obstacles and inclement weather that will affect DOD's ability to reach its destination on schedule.

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