

SCOMM

122:23

JOINT ARMED SERVICES COMMITTEE

September 23, 1999

10:40 a.m.

SENATE MEMBERS PRESENT

Senator Tim Kelly, Co-Chair
Senator Drue Pearce
Senator Pete Kelly
Senator Gary Wilken
Senator Al Adams

HOUSE MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Lisa Murkowski
Representative Gene Therriault
Representative Reggie Joule
Representative John Harris

PUBLIC MEMBERS PRESENT

Dean Owen (via teleconference)
Jake Lestenkoff (via teleconference)

OTHERS PRESENT

Senator Jerry Ward
Senator Loren Leman
Representative Brian Porter
Representative Joe Green
Representative John Cowdery
Representative Allen Kemplen
Representative Sharon Cissna
Representative Richard Foster
Jim Chase, Department of Military and Veterans Affairs, via
teleconference
Carol Carroll, Department of Military and Veterans Affairs

COMMITTEE AGENDA

U.S. Coast Guard Overview by Rear Admiral Barratt
Special Presentation: Army Privatization Programs
Interim Activities Report
Issues Update

WITNESS REGISTER

Rear Admiral Thomas Barratt
Commander 17th Coast Guard District
P.O. Box 25517
Juneau, AK 99802

Colonel Michael L. Sandberg
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Major Brian C. Hilferty
Public Affairs Officer
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Mr. John Toenes
Deputy Director, Directorate of Public Works
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Mr. Gregory C. Endsley
Deputy Director, Directorate of Logistics
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Mr. Mark S. Bryant
Chief, Management Services Division
U.S. Army Alaska
Building 1
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ACTION NARRATIVE

TAPE 99-2, SIDE A
Number 001

CO-CHAIR TIM KELLY called the Joint Armed Services Committee

JT ARMED SERVICES CMTE

- 2 -

09/23/99

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JT ARMED SERVICES CMTE

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09/23/99

meeting to order at 10:40 a.m. Committee members present were Senator Tim Kelly, Senator Drue Pearce, Senator Gary Wilken, Representative Eldon Mulder, and Dean Owen and Jake Lestenkoff via teleconference.

CO-CHAIR ELDON MULDER moved to approve the minutes of the July 19, 1999 meeting. There being no objection, the minutes were approved.

CO-CHAIR TIM KELLY introduced Rear Admiral Thomas Barratt of the U.S. Coast Guard and announced that Rear Admiral Barratt will host a luncheon for committee members on September 24.

REAR ADMIRAL BARRATT informed committee members that he would be happy to speak to and show committee members, as well as individual legislators, what the Coast Guard does, how its work relates to the state, and to provide tours of Coast Guard installations.

REAR ADMIRAL BARRATT gave the following briefing to legislators. The U.S. Coast Guard has 2000 men and women serving in Alaska. The responsibilities of legislators are significant and they intersect with U.S. Coast Guard responsibilities through various operating administrations of the state. Whether the U.S. Coast Guard is successful in its missions in areas like fisheries enforcement or environmental protection depends on the Coast Guard's efforts, the laws and regulations it must enforce, the resources and training it gets, and the relationships it has with the people and agencies it works with.

REAR ADMIRAL BARRATT discussed his philosophy toward the Coast Guard's mission. First, Coast Guard officers must ask themselves if they are "doing the right thing" for themselves, their mission, their families, and for the communities they serve. "Doing the right thing" means providing operational excellence which requires good leadership, teamwork and innovation. Good teamwork must be applied to external, as well as internal operations. To be successful, the U.S. Coast Guard must partner effectively with agencies such as the Department of Public Safety (DPS) and the Department of Environmental Conservation (DEC). The more the Coast Guard is able to coordinate its efforts in operational excellence, the better the result will be for the industry it serves.

REAR ADMIRAL BARRATT noted the second most important component of his philosophy is that Coast Guard members must look out for each other as well as for the communities they serve. Community outreach efforts by the Coast Guard are very important in Alaska. He emphasized that he always has an open ear for legislators and believes outreach to the Legislature is important to ensure that he fully understands what legislators' issues are in regard to their

constituents.

REAR ADMIRAL BARRATT said his last directive to Coast Guard members is to honor the public trust they hold and to approach their jobs with integrity.

REAR ADMIRAL BARRATT discussed the issues he faces at this time. Oil transportation safety is an ongoing issue and the most important. The safety of other commercial vessels is also on the top on the list. He noted many commercial vessels dock at Dutch Harbor and that he believes it is better to enforce safety regulations and keep a ship in port than to find the ship out on the rocks. Passenger vessel safety, especially in light of the growth of the tourism industry in the state, is the second most important issue he faces. Small passenger vessel safety is also of concern. REAR ADMIRAL BARRATT said he first attempts to find regional solutions to problems and to reach out to industry representatives to avoid regulatory solutions whenever possible. He believes the best solutions are developed with cooperation, understanding, education, and partnerships.

REAR ADMIRAL BARRATT acknowledged that he is very personally bothered when deaths occur that could have been avoided and he is convinced that the Coast Guard is not doing as well as it could in that arena. He noted two young Canadian girls drowned in a skiff accident on the North Slope recently. The two girls were on a long journey without any emergency or life saving equipment. He said he will work as hard as he can to find a way to reduce the number of preventable deaths in Alaska.

CO-CHAIR TIM KELLY asked what the equivalent is to the United States Coast Guard in our neighboring countries.

REAR ADMIRAL BARRATT replied they have similar but not identical organizations. He will be meeting with the director of the Russian Federal Border Service this week. Historically, that organization has been more of a customs agency but it is taking on the additional responsibilities of fisheries enforcement and environmental protection. Russia's search and rescue operations are entirely separate from the Federal Border Service at this time. Canada's Coast Guard has recently taken on fisheries enforcement duties. Japan has a Coast Guard-type organization but inspection functions are not linked to it.

CO-CHAIR KELLY asked if the Canadian agency is referred to as the Canadian Coast Guard. REAR ADMIRAL BARRATT said it is, however it is under the purview of the Canadian Armed Forces.

REPRESENTATIVE RICHARD FOSTER asked what function Loran stations play now that satellites are used for navigational purposes.

REAR ADMIRAL BARRATT explained that Loran stations are used as a back-up system and he expects them to be in place for another eight to 10 years. Aircraft pilots use the GPS system but, because of reliability, transmission, and redundancy concerns, the aviation community is not willing to let go of the back-up system.

REPRESENTATIVE FOSTER asked if any Coast Guard icebreakers will be visiting the Nome and Kotzebue area in the near future.

REAR ADMIRAL BARRATT noted the icebreaker Healy (ph) will be visiting this fall and that although he is unaware of specific schedules, the Coast Guard plans to occasionally operate icebreakers in that area.

Number 285

SENATOR PEARCE asked if the Coast Guard has considered asking Congress to change the statute and regulations governing the gross tonnage for passenger vessels so that the Coast Guard can get more regulatory authority over the smaller vessels that have had problems.

REAR ADMIRAL BARRATT said nothing is underway now but when the small passenger vessel safety task force finishes its work, he will look at that issue. He noted that part of the problem lies in the fact that the masters on the vessels that Senator Pearce referred to are required to have a 100 ton license, even though the vessels they operate are larger. He stated that naval architects can be very creative in getting more passenger capacity and larger vessel size while complying with existing regulations. He maintained that the problem may lie in the regulations, but it may also lie in the competence and training and the approaches used by the industry to ensure that the masters are capable. He pointed out that some of the better tourism vessel operators require three, four, or five escorted trips to a destination before they allow a master to operate the vessel alone.

SENATOR PEARCE stated she is not necessarily questioning the ability of the masters on the smaller ships, however she would prefer that pilots be hired whenever a ship is carrying a large number of paying passengers. She noted what she thinks is happening on these ships is that the master is trying to navigate the boat, act as tour guide with a loudspeaker, and accommodate tourists on the bridge deck simultaneously. She expressed concern that because of the way the vessels were designed, the Coast Guard

cannot control the "manning" of the ships.

REAR ADMIRAL BARRATT said that is correct. He pointed out that these vessels are traveling to areas that are inherently dangerous; the master must pay attention to navigation and cannot "eyeball" a route.

Number 335

REPRESENTATIVE GENE THERRIAULT indicated that the Alaska Legislature has been debating the issue of whether to require recreational vessels to register and pay a tax to provide a match for federal dollars to establish a boating safety program. He asked Rear Admiral Barratt to comment on such a program.

REAR ADMIRAL BARRATT noted that the death rates have dropped substantially in states that have established boating safety programs. Effective state programs involve education and minimal regulatory requirements and use existing enforcement mechanisms. The death rate in Alaska is 10 times higher than some other states. He would like to work to cut that rate in half. He offered to talk about such a program in detail with Representative Therriault at another time.

SENATOR AL ADAMS asked if bulk fuel storage facilities fall under the jurisdiction of the Coast Guard.

REAR ADMIRAL BARRATT said they do.

SENATOR ADAMS asked what steps the Coast Guard is taking to get rural communities to comply with the regulations governing bulk fuel storage facilities and whether the Coast Guard has funds for that project.

REAR ADMIRAL BARRATT said that matching federal and state funds have been made available to do some of the work. The Coast Guard and DEC are prioritizing the facilities in need of repair so that the worst situations can be addressed first. He expects this project to take at least five years to address.

CO-CHAIR TIM KELLY thanked Rear Admiral Barratt for speaking to the committee. He then announced that representatives of the U.S. Army would brief the committee on the Army's privatization efforts.

CO-CHAIR ELDON MULDER introduced Major Brian Hilferty, Public Affairs Officer; Mr. John Toenes, Deputy Director of the Directorate of Public Works; Mr. Greg Endsley, Deputy Director of the Directorate of Logistics; Mr. Mark Bryant, Chief of Management

Services Division and Deputy Chief of Staff for Resource Management; and Colonel Mike Sandberg, Deputy Chief of Staff for Logistics, U.S. Army Alaska, and the Director of Logistics for the U.S. Army Garrison Alaska.

CO-CHAIR TIM KELLY noted that Representative Brian Porter, Senator Al Adams, Representative Lisa Murkowski, Representative Gene Therriault, Representative John Harris and Senator Pete Kelly had joined the committee.

Number 400

COLONEL SANDBERG informed committee members that the U.S. Army Alaska (USARAK) Directorates span Fort Richardson, Fort Wainwright and Fort Greeley.

COLONEL SANDBERG pointed out that his group gave the same briefing to the Joint Committee on Privatization on Monday. The group is attending to inform committee members of what USARAK, as a federal entity, is doing in the way of commercial outsourcing and privatization. The group has no intention of telling the State of Alaska how it should go about its efforts in that arena. He noted Mr. Bryant would begin the presentation with a general overview, and then he would give a director's perspective on how USARAK prepared its workforce to accept the fact that they were being studied for commercial outsourcing.

MR. MARK BRYANT presented a slide show consisting of 38 slides showing the basic history, regulatory requirements, and results of USARAK's competitive sourcing and privatization project.

Slides 1 and 2 are introductory and describe the purpose of the presentation.

Slide number 3 contains the general philosophy behind the project which is that government should not compete with the free enterprise system.

Slides 4 and 5 define competitive sourcing and privatization. Competitive sourcing is an activity in which government retains ownership of some of the equipment and the facilities. After the competitive sourcing study is conducted, USARAK chooses one of three ways to have the service performed: USARAK can turn control of the operations over to contractor performance but do the surveillance itself; it can provide the service in-house; or the service can be provided by another federal agency. USARAK may instead decide to privatize a service in which it turns over its assets to someone else and get out of the business entirely. The

choice between competitive sourcing and privatization is based on economy. The best examples of privatizing services are the ongoing studies on privatization of utilities and housing. The only stipulation for privatizing services is that it must be economical, so a cost analysis is conducted to determine if the service can be provided cheaper by a contractor.

Slide number 6 contains a detailed definition of an A-76 cost competition which Mr. Bryant explained is basically a full cost competition study. The study determines all costs involved in providing the service in-house. USARAK then solicits prospective bids. The cost competition methodology in A-76 is specified in the OMB circular. USARAK studies entire organizations, not only the functions it wishes to compete. The competitive sourcing can be done in two ways: if the organization has 10 or less appropriated funded positions, a direct conversion is done. If the organization has 11 or more employees, by law USARAK must do a full cost competition study.

Slide number 7 contains the history of competitive sourcing in the federal government. The Nichols Amendment of 1987 created a moratorium from 1987 to 1995 at which time the Commission on Roles and Missions was created by Secretary of Defense Cohen.

Slide number 8 shows the results of the studies from 1979 through 1996. After 468 studies were completed, a 28 percent savings resulted.

Slide number 9 contains the results of a GAO study completed in February of 1999. In 18 of the 53 studies, the performance work statements had to be revised. The performance work statement is the most important document in the entire process as it describes what the contractor is expected to do. Of 32 contracts, 4 were terminated for unsatisfactory performance.

Slide number 10 contains USARAK's strategy which is to achieve greater efficiency to get the best deal for the government and the taxpayer.

Slide number 11 shows the time limits for the studies established by OMB Circular A-76. A single function study is limited to 18 months. A multi-function study is limited to 36 months. Congress also set time limits for spending funds on studies that are a little bit longer.

Slide number 12 shows the starting point as determining what USARAK's commercial activities are and what the inherent government activities are.

Slide number 13 contains the major categories of the functions that can be studied according to the OMB Circular. This represents about 320 sub-functions. The functions that can be studied are also contained in other guides published periodically as part of the annual appropriation acts. MR. BRYANT said if a service can be found downtown or in the phone book, it has the potential of being contracted out to the commercial sector.

Slide number 14 contains the definition of an inherent government activity. MR. BRYANT said if an employee has the authority to make a decision on behalf of the government and commit it to an action, that position is an inherently governmental function.

Slide number 15 contains the reasons why cost competition is important to the federal government. Basically, USARAK just wants to perform better. MR. BRYANT credited the civil servants who have a vested interest in the studies and know how the functions are performed for the success of USARAK's privatization program.

Slide number 16 shows some of the perceptions of A-76 competitions. They are seen as difficult, controversial, and as always leading to appeals, which is not true. Of the 53 studies conducted, 10 were appealed, and only one of the appeals was won.

Slide number 17 discusses federal employee and union roles. No closed meetings occur and employees participate fully until the end of the process, at which time management begins to close off the process to the unions and employees. Employees are critical to the process in that they document their workload and identify areas for improvement.

TAPE 99-2, SIDE B

Slide number 18 shows the process for compiling documentation to announce USARAK's studies. By law, the process must be announced to Congress. The performance work statement is very detailed; the typical performance work statement for the vehicular logistics study fills several binders. After the performance work study is developed over 12 to 14 months, it is given to USARAK's director of contracting to solicit contract offers, and to a management review team. The performance work statement and the most efficient organization work documents are given to the U.S. Army audit agency to check the process. The contractor proposals are evaluated for past performance, quality, best value, and bench marking. When completed, USARAK selects the top bid which will compete with the in-house bid to complete a cost comparison. Standard software is used to compare the numbers and an initial decision is made. Once the initial decision is made USARAK automatically allows protests

and appeals for 30 days.

REPRESENTATIVE COWDERY asked if USARAK allows contractors to "cherry pick" when bidding.

MR. BRYANT explained that most studies are multi-function studies because of the economy of scale. USARAK requires contractors to bid on the entire contract. Furthermore, the directors of logistics and public works require one bid for public works projects and logistics for both Ft. Richardson and Ft. Wainwright.

MR. BRYANT noted after the appeals process is finished, USARAK notifies Congress and then takes 6 to 12 months to implement the contract. The contractor's bid must beat the in-house workforce bid, at least on personnel costs, by at least 10 percent or up to \$10 million, to compensate for the transition costs.

Slide number 19 contains the milestone requirements which are based on the statutory and regulatory mandates for completing the studies. In addition, headquarters gives USARAK specific due dates for completing the studies. The U.S. Army audit agency concluded that a large study would take about 33 months.

Slide number 20 lists the success factors of which the most important is open communication on every activity being conducted. USARAK publishes newsletters, a web page, and newspaper articles, and holds meetings with the workforce and the union. Both participate in the study. USARAK also tries to keep communities informed about what the studies involve. USARAK promotes a positive approach from the outset, and wants to complete the process as soon as possible. It believes it will not have to do large multi-function studies again for about 4 or 5 years. Current civilians have right of first refusal by law. If a contractor wins the bid, the contractor must first offer the displaced employees the right to a job if qualified.

Slide number 21 shows the general lessons learned. The A-76 program has been refined and revised and is an improvement over the program in existence in the 1980s.

REPRESENTATIVE COWDERY asked Mr. Bryant to explain the Brown and Root award in Kodiak to committee members.

MR. JOHN TOENES informed committee members that USARAK has a contract with a company named Brown and Root. It has a job order contract; it is not an A-76 cost comparison study. Beginning about 10 years ago, USARAK received consecutive year reductions in its number of civilian employees. USARAK took those reductions out of

a class of work it calls "project work" as opposed to scheduled maintenance and services. USARAK chose to solicit a contract for that work at Fort Richardson and Fort Wainwright and some other small sites around the state. Brown and Root was the successful bidder; its contract was for one year with four option years. It is now in its second contract. Contracting for those services has been very successful monetarily and administratively.

REPRESENTATIVE COWDERY asked how long Brown and Root has been performing the contract.

MR. TOENES replied that Brown and Root has been providing the services for over a decade.

SENATOR WARD asked Mr. Toenes to tell committee members what A-76 means.

MR. TOENES explained that in the 1950s, when this program first started, the executive branch of government decided the number of civil servants it wanted and how the agencies would be staffed. President Eisenhower decided to contract out commercial services. Congress, given that it had a constituency of over 3 million civil servants, created a public law (PL 105-262, Section 81-04) which required that anytime more than 10 civilians are involved in a study, some kind of cost comparison must take place before those employees can be displaced. The Office of Management and Budget, which is part of the executive branch, built OMB Circular A-76 which prescribes the method to be used to do a cost comparison study. A-76 was most recently revised in 1996.

Number 506

SENATOR PEARCE asked whether Congress must give approval when USARAK notifies it of a study with more than ten civilians involved, or whether notification is sufficient.

MR. BRYANT stated USARAK only notifies Congress of the result of the study.

SENATOR PEARCE asked, in reference to the Brown and Root contract, whether the union management was a part of the contract renewal process, during which she assumed another scoring would take place.

MR. BRYANT assumed not, however he deferred to Mr. Endsley to answer. Mr. Bryant clarified that the contracts are awarded for five years: one year with four option years. Upon the anniversary of the first review year, he asked Mr. Endsley if the union would be involved with that review.

MR. ENDSLEY explained that the director of resource management that remains at the installation oversees how well the contractor is performing and the costs. If the director sees that performance is poor or that costs are escalating, the government can take action to recompet the contract and bring it back in-house. Therefore, the union that remains at the installation will certainly be watching to see how the contractor does.

SENATOR PEARCE asked if, at the end of five years, the review process is much more elaborate, and whether the union is back at the table at that time.

MR. ENDSLEY said that right now there is no allowance for that. The contract bids are resolicited like any other government contract, therefore there is no methodology for the government to jump back in to compete at that time.

SENATOR PEARCE asked how many five year extensions can be granted before the full process must occur again by law.

MR. ENDSLEY explained that at the end of five years the full process must occur but it does not include the government part of the competition, it is just a contract resolicitation in which the private sector competes. The A-76 process does not allow in-house government services to compete at that time if everything is going well with the contract process.

MR. BRYANT added that the government could come back in and compete but it would have to beat the contractor's bid by ten percent.

MR. ENDSLEY noted a cost transfer study allows a review of a contractor who may become overpriced. If the study proves that the contractor is overpriced, the government workforce could compete but would have to beat the contractor's bid by ten percent.

MR. TOENES stated the process of commercial activities is actually designed to ultimately result in a contract, so when a scenario in which the in-house workforce wins, a commercial activity review is initiated again almost immediately and is continuous until the contract is bid again. There are only a few exceptions in which the in-house workforce might have the chance to reparticipate in the competition. The A-76 process is trying to guarantee that a cost competitive contractor ultimately winds up performing the services.

SENATOR PEARCE asked whether the bias is toward outsourcing.

MR. BRYANT said there is no bias.

SENATOR PEARCE noted that Mr. Toenes said that the process immediately starts again until outsiders do the work.

MR. BRYANT clarified that the term "bias" is inaccurate because this process is designed to be as fair as possible.

SENATOR PEARCE said she did not mean to use the word "bias" in a pejorative manner, however USARAK is deliberately trying to get the services provided by contractors.

MR. BRYANT agreed.

MR. BRYANT continued presenting the slides.

Slide 22 lists USARAK's four largest organizations under study: the Directorate of Logistics; the Directorate of Public Works; the Directorate of Plans, Training, Security, and Mobilization; and the Directorate of Community Activities. All totaled, the military and civilian personnel of those organizations represent 78 percent of USARAK. A much smaller percentage will be competed even though the entire organization is under study.

Slide number 23 contains the goals for USARAK's workforce. To identify all of the services that USARAK wants to buy as accurately as possible is the number one goal. Second, the in-house workforce must be prepared to be the successful bidder.

COLONEL SANDBERG asked committee members to note the second goal because he believes it is critical that the boss talk to the workforce and alert it to USARAK's efforts to make the workforce as competitive as possible.

MR. BRYANT noted that the third goal is to plan a smooth transition to the performance work statement, and the fourth goal is to pursue every avenue possible to take care of the people in the Directorates of Public Works and Logistics.

Slide number 24 contains study time lines for the years 1998 through 2001.

Slides 25 and 26 contain examples of before and after performance work statements for the service of lawn mowing.

Slide number 27 shows the source selection evaluation structure. It contains a formalized process for selecting the best contractor's bid to compete with the in-house workforce. It uses a source selection advisory council composed of senior staff members and a source selection evaluation board made up of 5 or 6

people. Technical experts also participate.

Slide number 28 defines privatization and lists the Army's privatization goals and its on-going studies. The on-going studies focus on steam, heat, electric, gas, and water and sewer facilities, as well as housing.

Slide number 29 is a cartoon depicting USARAK's implementation summary. USARAK may be smaller in the future but it hopes to be more streamlined and businesslike.

Slide number 30 is entitled "Conclusion" and describes USARAK's primary focus as mission performance with cost savings.

MR. BRYANT turned the presentation over to Colonel Sandberg for a perspective on actual studies conducted by USARAK.

Number 375

COLONEL SANDBERG stated that he has a number of individuals who are affected by the commercial activities studies that are underway in the Directorate of Logistics. Most of them are in jeopardy of losing their jobs. He discussed the last slides which pertain to the in-house employees.

Slides 31 through 38 are a briefing given to USARAK employees in each installation being studied. USARAK does not want its employees to read a headline in the newspaper once the studies are completed. USARAK is trying to prepare its in-house workforce to compete with any contractor and to win the ability to remain a viable government workforce. Initially, employees were trained. They were told how the study was going to take place and what would be expected of them so that they could prepare themselves and the rest of their workforce. They were then told they had to arm themselves by identifying in detail all tasks that they do, to be truthful in the information they provide, and to be tenacious about incorporating any changes into all study documents. Employees have been told that USARAK has to be brutally efficient. Because the person doing a job knows the best way to do it, employees were asked to communicate ideas about streamlining jobs and to think "out of the box." Employees understood that although USARAK will be smaller, it is confident that its employees can do the job best if the workforce can be more efficient, and that no contractor can do the job any better, especially for ten percent less.

SENATOR WARD noted that the subcommittees of the Joint Commission on Privatization are having some trouble getting through management to find out what individual employees are doing.

COLONEL SANDBERG remarked that the federal sector hired a contractor to come in and assist management to identify the tasks done by each employee. His employees were individually interviewed before any performance work statements were written. Before the interviews took place, all individual and collective tasks and functions of the subdivisions within the Directorates were flow charted.

SENATOR WARD asked if the flow-chart exposed inefficiencies in USARAK's operations.

MR. ENDSLEY replied that flow-charting is an incredibly good tool for finding inefficiencies.

CO-CHAIR MULDER asked if any duplication of services was highlighted.

MR. ENDSLEY said they found there were a number of duplicated services, primarily among the smaller services.

REPRESENTATIVE CISSNA asked how long the flow-charting process takes.

COLONEL SANDBERG replied that it depends on the complexity of what one is flow-charting. Some of the flow-charts were three inches thick. The process of creating a flow-chart takes a significant effort on the part of everyone in the organization from the lowest to highest level employee. In his directorate he has more than 20 people working full time to flow-chart at this time. More than 20 people worked full time to flow-chart the individual processes.

MR. TOENES said the process the Army goes through is based on Army Regulation 5-20, however it mirrors industrial engineering standards. It has two major components: brainstorming, the goal of which is to identify every task performed for at least one hour per year by anyone in the workforce; and second, to determine the cost of every step of each product made and service performed in a year. Flow-charting is invaluable in the process. He advised that almost every contract that has failed did so because of a poor performance work statement or because the contractor did not follow the structured industrial engineering process and simply "winged it."

REPRESENTATIVE COWDERY asked Mr. Toenes to tell committee members about the study for the replacement of light bulbs.

MR. TOENES conveyed that the original performance specification required that all lamps be lit. The contractor could choose two

alternatives: to replace each bulb as it expires, or to replace all bulbs at once, based on the life expectancy of the bulb. The most cost effective method is to replace all bulbs at once because the highest cost (up to 80 percent) of such services is labor.

Number 187

REPRESENTATIVE CISSNA referred to Slide 34 and asked if the training comes first.

COLONEL SANDBERG replied that his directorate did most of the preliminary work first.

MR. ENDSLEY added that he trained all employees on how to brainstorm and do flow-charts.

REPRESENTATIVE CISSNA asked if any materials could be shared from that process.

MR. ENDSLEY explained that USARAK hired a firm to train its workforce, but before that it held its own in-house training in which it used basic management techniques of brainstorming and flow-charting. He noted material is available at bookstores or any consulting firm could do that type of training.

MR. TOENES added that the material provided by the contractor is proprietary. Mr. Toenes said regarding the cost of the studies, some nearly 400 employee positions have been covered by performance work statements. The three year process will cost nearly \$9 million.

CO-CHAIR MULDER asked what percentage of USARAK's budget the \$9 million represents.

MR. TOENES replied the budget of the Directorate of Public Works for this year will be about \$160 million. He assumed the \$9 million would come out of three years' budgets, costing about \$3 million per year.

MR. ENDSLEY noted the Army hired contractors and paid them \$1,000 per position to perform the study. The Army has discovered that \$8,000 to \$9,000 per position is insufficient to hire a contractor to perform the study. They are estimating that \$13,000 to \$14,000 would be adequate.

Number 120

CO-CHAIR MULDER stated that basically seven percent of the budget

is dedicated toward doing the study of efficiency.

REPRESENTATIVE KEMPLER asked where the money comes from for the A-76 competition and whether other projects must compete for those funds.

COLONEL SANDBERG commented that the Army has budgeted for the position of Assistant Chief of Staff for Installation Management with funds to pay contractors to initiate the studies at the rate of \$1,000 per employee. USARAK has basically picked up the remainder of the cost.

MR. BRYANT noted that the Army Headquarters knew the studies would be difficult so it decided to centrally fund them, however it underfunded the studies. At one time they increased the amount to \$1400 per position, however now the Army audit agency believes it will cost \$8,000 to \$9,000 per position. About \$2.6 million was given to USARAK to do the project; \$1.2 was for the Directorate of Public Works study alone. The \$9 million that Mr. Toenes referred to was for the in-house workforce for training and meetings, and for materials and equipment for the core team. USARAK will pay about 75 percent of that amount.

COLONEL SANDBERG stated while training, employees were not doing their core functions within the Directorate.

MR. TOENES said that unfortunately, whether an in-house workforce cost comparison competition is the scenario, or whether USARAK would choose to go direct to contract should legislation allow that and it does not, the same process must be used to come up with a performance work statement to guarantee that the product and services are adequately provided. Therefore, the costs of the study would only be reduced slightly if the in-house workforce was not included.

REPRESENTATIVE KEMPLER asked whether the performance work statement is included in the \$9,000 per employee rate.

MR. BRYANT replied that it is not.

MR. TOENES clarified that Mr. Bryant was saying that the cost of the contractor was not built into that cost. The \$9 million amount includes the cost of building the performance work statement which entailed months of brainstorming and other industrial engineering processes by management and training the in-house workforce. The contractor's cost was not built into that amount.

REPRESENTATIVE KEMPLER asked if there are two costs, one for the

performance work statement and the second for the A-76 study process to determine whether the services could be provided by the private sector.

MR. ENDSLEY clarified that the process begins with writing a performance work statement which USARAK is doing with some outside assistance funded by the Army. USARAK then writes its government proposal for the contract. That is all part of the A-76 process. Not only is USARAK writing its proposal, private firms are simultaneously writing their proposals based on the solicitation and they compete at the end. From the starting point of writing the performance work statement to the cost comparison is all part of the A-76 study. A separate management study is done by USARAK to prepare a technical proposal, however that is just one part of the A-76 study for outsourcing.

REPRESENTATIVE KEMPLER asked if the state wanted to follow USARAK's process, whether the Legislature would be obligated to provide additional funding just as USARAK is receiving from Congress.

TAPE 99-3, SIDE A

MR. TOENES said the federal government did it in two ways. It centrally funded some of the consulting contractors, some of whom have been more successful in helping than others. Clearly 70 or 80 percent of the \$9 million is coming out of the annual operating budget of the Directorate of Public Works.

CO-CHAIR MULDER said it would seem that a long term savings could result from two things, even with the additional expense. Savings will result from outsourcing itself and they will result from the discovery of inefficiencies even in cases where services are not privatized.

COLONEL SANDBERG remarked that if USARAK determines that the production of some product or service cannot be done efficiently in-house, either because of the payroll rules involved or the levels of skills required, whether necessary or not, it can elect to contract the service as part of the in-house bid against which the other contract proposals will compete. He noted that the federal government was so sure that USARAK would realize savings, it incurred cutbacks before it began the study.

CO-CHAIR MULDER noted the incentive for the Department of Defense was based on the fact that it could capture and retain savings and use them for other projects within their own department.

CO-CHAIR MULDER asked who decided which core functions could not be

studied.

MR. BRYANT replied that is done by law and it is also spelled out in the OMB Circular. Office of Procurement policy statements are published regularly, and Army regulations are promulgated regularly. The basic determination was made by the Office of Management and Budget.

MR. TOENES added that the primary criteria used had to do with the proprietary nature of the work.

MR. BRYANT added the Defense Reform Initiative Decision Number 20 (DRID 20) pertains to inventory reform of commercial functions. It changed the way USARAK documents what is considered to be commercial in nature and what is not, therefore USARAK does have further promulgating guidance. In addition the Freedom from Acquisition Inventory Reform Act (FAIR) requires that the DRID 20 inventory be publicized in a commerce-business arena.

CO-CHAIR MULDER said that would allow someone to contest the fact that a core function could be handled by the private sector.

MR. BRYANT said that is correct.

SENATOR WARD asked Mr. Bryant to discuss the restrictions put on the group of people who make the final awards.

MR. BRYANT explained that all personnel who participate in the groups within the source selection evaluation board are exempted from the right of first refusal because they will have insider knowledge of the bids.

MR. ENDSLEY added that the folks that put together the government's technical proposal are also exempted from the right of first refusal.

COLONEL SANDBERG noted that firewalls are essentially established so that certain people are not privy to the information in the government's independent bid. That way they do not lose the right of first refusal which is key for the employees.

There being no further questions, CO-CHAIR MULDER thanked the group for sharing their presentation.

CO-CHAIR TIM KELLY noted Representatives Cowdery and Cissna, and Carol Carroll from the Department of Military and Veterans Affairs had joined the committee. He asked Chris Nelson, JASC staff director, to update committee members on interim activities.

CHRIS NELSON informed committee members that committee packets contain trip reports from the Washington, D.C. trip and the NAID Conference, among other materials. He noted an overnight trip to Ft. Greeley and Clear Air Station is planned for the quarterly meeting on October 4. The purpose of the trip is to view the proposed ground launch interceptor sites for ballistic missile defense. By the time that meeting occurs, a few significant events will have taken place in the ballistic missile defense program. The Environmental Impact Statement (EIS) for the Alaska sites has been completed and will be issued on October 1. Public hearings on the EIS are tentatively set for the first week of November in Fairbanks, Anderson, Delta, and Anchorage. Second, the first test of the exo-atmospheric kill vehicle, the "bullet that will hit the bullet", is scheduled for the first week in October. Also, while at Fort Greeley, the JASC will be briefed on the Northern Warfare Training Center and it will visit the Cold Regions Test Center.

MR. NELSON informed committee members that the Federal Aviation Administration is hosting a conference on the specific issues of privatization and joint use of military airfields on October 17-19. Also, the conference on ballistic missile defense with the Japanese is scheduled for November 8-9 in Honolulu, Hawaii. Mead Treadwell from the Institute of the North is coordinating that conference. A third conference of interest will be held in Tempe, Arizona on January 27-28, 2000. It is being put on by NAID and the subject is making military bases cost competitive.

MR. NELSON discussed background reading material he included in committee member packets. The National Intelligence Council's unclassified version of the CIA report on foreign missile developments outlines the magnitude of the threat. An excerpt of the Deutsch report is also included.

MR. NELSON noted that he and Senator Pearce learned that nations like China and North Korea are financing their weapons programs by raising capital in the Western stock and bond markets through companies directly owned by those countries. Federal legislation is being proposed that will require disclosure so that potential shareholders will be aware of what they are buying when stock or bond offerings are put on the Western stock market. Also, an article in Investors Daily pointed out that the largest public employee retirement system, the California system, has direct investments in several of the companies that build Chinese missiles.

MR. NELSON informed committee members that copies of an alternative

proposal to the national ballistic missile defense system, the AEGIS cruiser system, is contained in committee members' packets. The JASC is not opposing that system as it is a good supplement, however it is not an adequate replacement for a dedicated ground launch system.

Regarding the Base Realignment and Closure (BRAC) issue, MR. NELSON pointed out that he and Senator Pearce were told during their meeting with Pentagon officials that BRAC is off the table until at least the year 2003. The good news is that Alaska will have some time to assist its military bases in becoming more cost competitive, however the bad news is that the two items up for consolidation review in 2003 are depots and labs. Alaska has no depots but the Cold Region Test Center is a lab and will be a BRAC target.

MR. NELSON noted that the Department of Defense is looking at privatizing all utilities on Alaska bases by the year 2003. Both Elmendorf Air Force Base and Ft. Richardson officials are engaged in ongoing discussions with the Municipality of Anchorage. Some systemic problems have been discovered. The military, like other public agencies, has a deferred maintenance problem; the existing delivery systems are not in good shape. JASC wants to assist the Department of Defense in its privatization efforts, however it must be careful not to take on a white elephant.

MR. NELSON discussed proposed legislation. Staff is working with DEC on a solution to the statutory ban on the use of smoke in Alaska. DEC would allow the Army to use smoke on a permit basis. If DEC does not feel it can implement a permit process in compliance with existing statute, it will provide suggestions for legislation before the next legislative session to modify the existing statute.

SENATOR PEARCE asked if the dates for the public hearings on the EIS have been set. MR. NELSON said they have not, but the target date is the first week of November.

SENATOR PEARCE asked why the release of the EIS was delayed until October 1. MR. NELSON replied that he is unaware of any problems that may exist. He added that the Pentagon was originally looking at four Alaska sites for the ground launch interceptor system, but it has narrowed the field to two sites and is no longer considering Eielson or the Yukon maneuver area at Fort Wainwright.

JAKE LESTENKOFF asked Mr. Nelson if he has a copy of a report by the Pentagon that was sent to Congress in August entitled On the Utility of Sea Based Assets to National Missile Defense. MR.

NELSON answered that committee packets contain a policy paper by Frank Gaffney (ph) of the Institute of Strategic Studies. He offered to send a copy of the Pentagon's report to Mr. Lestenkoff.

SENATOR WILKEN asked about the agenda for the quarterly meeting.

MR. NELSON informed committee members they will leave Anchorage at about 7:30 a.m. and fly on National Guard aircraft to Allen Army Airfield where committee members will overnight. The following day the committee will fly to Clear. He noted that portions of the trip are available to other legislators and staff as the aircraft can accommodate them.

CO-CHAIR KELLY asked Mr. Nelson to prepare a memo to legislators to that effect.

SENATOR WILKEN offered to coordinate travel for Fairbanks participants who plan to drive.

CO-CHAIR MULDER suggested meeting with the City Council. MR. NELSON said that could be added to the agenda.

CO-CHAIR TIM KELLY asked committee members to submit the names of nominees for the Citizens Advisory Board to Mr. Nelson. He noted Mr. Nelson is preparing a mission statement and meeting schedule for the Board and that a meeting is tentatively planned in December.

There being no further business to come before the committee, CO-CHAIR KELLY adjourned the meeting at 12:40 p.m.