

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672  
2742 SCOMM 122: COMMISSION ON PRIVATIZATION... , 1999

1-LS0874\K.a

1 Vehicles is to provide protection of life and property through the efficient administration of  
2 motor vehicle laws.

3 \* **Sec. 13. Admin - Office of Public Advocacy.** The mission of the Office of Public  
4 Advocacy is to protect the rights of vulnerable Alaskans by providing cost-effective legal and  
5 guardian representation to abused and neglected children and to incapacitated adults.

6 \* **Sec. 14. Admin - Public Defender Agency.** The mission of the Public Defender  
7 Agency is to ensure equal justice for all Alaskans by providing constitutionally mandated legal  
8 representation to indigent clients.

9 \* **Sec. 15. Admin - Office of Tax Appeals.** The mission of the Office of Tax Appeals  
10 is to provide impartial, timely, and cost-effective hearing of tax appeals and other  
11 administrative appeals brought by businesses and individuals.

12 \* **Sec. 16. Admin - Y2K Project Office.** The mission of the Y2K project office is to  
13 assure that key business functions of the state are not interrupted due to Y2K related  
14 problems.

15 \* **Sec. 17. Admin - Alaska Public Offices Commission.** The mission of the Alaska  
16 Public Offices Commission is to

17 (1) increase public confidence in the state's election process and in our elected  
18 and appointed officials by promoting fairness and openness in elections;

19 (2) uphold the public's right to know the influences on public decision-making;  
20 and

21 (3) encourage participation in the process of representative democracy.

22 \* **Sec. 18. Admin - Oil and Gas Conservation Commission.** The mission of the Oil and  
23 Gas Conservation Commission is to protect the public interest in exploration and development  
24 of oil and gas resources, ensuring conservation practices, and maximum ultimate recovery  
25 while protecting health, safety, the environment, and property rights.

26 **Article 2. Department of Commerce and Economic Development.**

27 \* **Sec. 19. Department of Commerce and Economic Development.** The mission of the  
28 Department of Commerce and Economic Development is to work with the private sector,  
29 communities in the state, and other governmental entities in the state in creating new jobs for  
30 Alaskans, strengthening the state's competitiveness in the world marketplace, and maintaining  
31 a fair and consistent business regulatory environment in the state.

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1 (1) provide economic and business information and services to the private  
2 sector and to trading partners;

3 (2) encourage trade, investment, and sound economic development throughout  
4 the state.

5 \* **Sec. 26. DCED - Division of Tourism.** The mission of the Division of Tourism is to

6 (1) promote the state as a seasonal and year-round travel destination;

7 (2) create jobs and business opportunities in the private sector; and

8 (3) disperse the economic benefit of tourism throughout the state.

9 \* **Sec. 27. DCED - Alaska Aerospace Development Corporation.** The mission of the  
10 Alaska Aerospace Development Corporation is to allow the state to take a lead role in  
11 launching and servicing satellites and downloading data from satellites.

12 \* **Sec. 28. DCED - Alaska Seafood Marketing Institute.** The mission of the Alaska  
13 Seafood Marketing Institute is to increase the consumption of Alaska seafood and to promote  
14 the quality and superiority of state seafood products.

15 \* **Sec. 29. DCED - Alaska Science and Technology Foundation.** (a) The mission of the  
16 Alaska Science and Technology Foundation is to build an entrepreneurial state economy  
17 through the development and application of science and technology.

18 (b) The legislature intends to measure the success of the Alaska Science and  
19 Technology Foundation (ASTF) in achieving its mission by considering

20 (1) whether the number of full-time equivalent jobs in the state that are a direct  
21 result of ASTF project increases as compared to the five-year average;

22 (2) the increase in the amount of gross sales from technology resulting from  
23 ASTF projects;

24 (3) the increase in the number of value-added products for export or that  
25 substitute for imported products;

26 (4) the decrease in cost of goods or services purchased by the public sector  
27 from science or technology that results from ASTF projects;

28 (5) the percentage increase of public goods or services projects that show  
29 improvement as measured on a project-by-project basis.

30 **Article 3. Department of Community and Regional Affairs.**

31 \* **Sec. 30. Department of Community and Regional Affairs.** The mission of the

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1 Department of Community and Regional Affairs is to foster the development of self-reliant  
2 and productive individuals, families, and communities by providing training, technical  
3 assistance, and financial support.

4 \* **Sec. 31. DCRA - Office of the Commissioner.** The mission of the Office of the  
5 Commissioner is to set policy and program direction to achieve the department's mission of  
6 providing leadership, training, technical assistance, and financial support that leads to the  
7 development of self-reliant individuals, families, and communities.

8 \* **Sec. 32. DCRA - Division of Administrative Services.** The mission of the Division of  
9 Administrative Services is to provide general oversight and administrative services for all  
10 department programs through the division's audit, personnel, fiscal, budget and procurement,  
11 and information systems sections.

12 \* **Sec. 33. DCRA - Division of Municipal and Regional Assistance.** The mission of the  
13 Division of Municipal and Regional Assistance is to advise, assist, and coordinate efforts of  
14 local governments, individuals, and organizations so that communities can effectively provide  
15 essential public services.

16 \* **Sec. 34. DCRA - Division of Energy.** The mission of the Division of Energy is to assist  
17 in the development of safe, reliable, independent, and efficient energy systems throughout the  
18 state that are financially viable and environmentally sound.

19 \* **Sec. 35. DCRA - Division of Community and Rural Development.** The mission of  
20 the Division of Community and Rural Development is to assist in the development of self-  
21 reliant communities and individuals by providing training, technical assistance, and financial  
22 support.

23 **Article 4. Department of Corrections.**

24 \* **Sec. 36. Department of Corrections.** The mission of the Department of Corrections is  
25 to protect the public and encourage offender rehabilitation through humane, safe, and cost-  
26 effective confinement and supervision. The department will respect the rights of victims and  
27 recognize the dignity inherent in all human beings as it pursues this mission.

28 \* **Sec. 37. DCorrections - Parole Board.** The mission of the Parole Board is to  
29 administer the release of eligible correctional inmates while providing for public safety and  
30 for the successful integration of parolees into the community.

31 \* **Sec. 38. DCorrections - Division of Administrative Service.** The mission of the

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1 Division of Administrative Services is to assist and provide effective and efficient  
2 administrative support services to the operating divisions within the department in  
3 implementing their programs, while ensuring compliance with federal regulations, state  
4 statutes, state regulations, state policies and procedures, and departmental policies and  
5 procedures, as approved by the Office of the Commissioner.

6 \* **Sec. 39. DCorrections - Alaska Correctional Industries.** The mission of the Alaska  
7 Correctional Industries is to assist in the rehabilitation of prisoners by providing realistic work  
8 experiences as much like those that prevail in private industry as possible.

9 \* **Sec. 40. DCorrections - Division of Institutions.** The mission of the Division of  
10 Institutions is to ensure that the institutions are maintaining an environment for staff and  
11 prisoners that promotes positive change and at the same time fulfills the statutory obligation  
12 of protecting the public.

13 \* **Sec. 41. DCorrections - Division of Community Corrections.** The mission of the  
14 Division of Community Corrections is to

15 (1) develop and maintain public safety through supervision standards in  
16 conjunction with the regional chief probation officers; and

17 (2) provide for public safety through supervision of adult felons who are placed  
18 in the division's jurisdiction.

19 **Article 5. Department of Education.**

20 \* **Sec. 42. Department of Education.** The mission of the Department of Education is to  
21 lead and support the development of responsible, economically viable, lifelong learners and  
22 citizens.

23 \* **Sec. 43. DOE - Office of the Commissioner.** The mission of the Office of the  
24 Commissioner is to direct the department as it leads and supports the development of  
25 responsible, economically viable, lifelong learners and citizens.

26 \* **Sec. 44. DOE - Education Support Services.** The mission of the Education Support  
27 Services is to provide management, financial, and technical support services to departmental  
28 programs and the operation of public schools for lifelong learners and citizens.

29 \* **Sec. 45. DOE - Teaching and Learning Support.** (a) The mission of the Teaching  
30 and Learning Support is to improve student performance through professional development,  
31 school accountability, standards, and assessment.

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1 through the self-sustaining loan fund, educational loans to postsecondary students; and

2 (2) authorizing the operation of postsecondary institutions.

3 (b) The legislature intends to measure the success of the commission in achieving its  
4 mission by considering

5 (1) the percentage of and the increase in the percentage of Alaska student loan  
6 borrowers completing job-specific training programs;

7 (2) the percentage of and the decrease in the percentage of loans that are in  
8 default;

9 (3) the defaulted loan recovery rate and the increase in the rate of recovery for  
10 defaulted loans.

11 \* **Sec. 53. DOE - WWAMI.** (a) The mission of the Alaska Commission on  
12 Postsecondary Education in administering the WWAMI program is to improve the general  
13 health and well-being of state residents by providing biomedical education, research, health  
14 care, and public service.

15 (b) The legislature intends to measure the success of the WWAMI program by  
16 considering

17 (1) whether the program succeeds in increasing the number of Alaska  
18 communities with access to basic or enhanced medical services associated with WWAMI/UW;

19 (2) the percentage increase in WWAMI participants who return to the state to  
20 practice medicine;

21 (3) percentage increase of Alaskans receiving medical care through programs  
22 and physicians supported by the University of Washington School of Medicine WWAMI  
23 program;

24 (4) the percentage increase in health-related programs developed in the state  
25 that are associated with WWAMI/UW; and

26 (5) the number of research projects in or about the state associated with the  
27 University of Washington School of Medicine WWAMI program.

28 **Article 6. Department of Environmental Conservation.**

29 \* **Sec. 54. Department of Environmental Conservation.** The mission of the Department  
30 of Environmental Conservation is to develop, coordinate, and administer policies, programs,  
31 and planning related to public health and the environment of the state.

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1    \* **Sec. 55. DEC - Office of the Commissioner.** The mission of the Office of the  
2 Commissioner is to set departmental policy and implement statutory requirements.

3    \* **Sec. 56. DEC - Division of Administrative Services.** The mission of the Division of  
4 Administrative Services is to provide administrative support for the department's programs and  
5 personnel.

6    \* **Sec. 57. DEC - Division of Spill Prevention and Response.** The mission of the  
7 Division of Spill Prevention and Response is to prevent, respond to, and ensure the clean-up  
8 of unauthorized discharges of oil and hazardous substances.

9    \* **Sec. 58. DEC - Division of Air and Water Quality.** The mission of the Division of  
10 Air and Water Quality is to identify, prevent, abate, and control air and water pollution in a  
11 cost-effective, accountable manner.

12   \* **Sec. 59. DEC - Division of Environmental Health.** The mission of the Division of  
13 Environmental Health is to prevent and control public health nuisances by establishing  
14 standards of cleanliness and sanitation for water, solid waste, and food where a lack of  
15 sanitation may create a condition that causes disease.

16   \* **Sec. 60. DEC - Division of Facility Construction and Operation.** The mission of the  
17 Division of Facility Construction and Operation is to provide financial and technical assistance  
18 to local governments for construction and operation of water, sewage, and solid waste projects.

19   \* **Sec. 61. DEC - Division of Statewide Public Service.** The mission of the Division of  
20 Statewide Public Service is to provide environmental compliance assistance to communities  
21 and businesses.

22                                   **Article 7. Department of Fish and Game.**

23   \* **Sec. 62. Department of Fish and Game.** The mission of the Department of Fish and  
24 Game is to protect, maintain, and improve the fish, game, and aquatic plant resources of the  
25 state, and manage their use and development in the best interest of the economy and the well-  
26 being of the people of the state, consistent with the sustained yield principle.

27   \* **Sec. 63. DF&G - Office of the Commissioner.** The mission of the Office of the  
28 Commissioner is to provide executive leadership and policy guidance in managing, protecting,  
29 maintaining, and improving the fish, game, and aquatic plant resources of the state.

30   \* **Sec. 64. DF&G - Division of Administrative Services.** The mission of the Division  
31 of Administrative Services is to provide efficient and cost-effective professional support

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1 anadromous water bodies were maintained, protected, or enhanced compared to the number  
2 of projects in specified anadromous water bodies permitted;

3 (3) projects where unavoidable losses to fish and game populations were  
4 successfully mitigated compared to the number of

5 (A) projects involving unavoidable losses to fish and game; and

6 (B) all projects permitted;

7 (4) permits issued where violations of permit terms and conditions were  
8 satisfactorily resolved compared to the number of

9 (A) permits whose terms and conditions were violated; and

10 (B) all permits issued.

11 \* Sec. 68. **DF&G - Division of Subsistence.** The mission of the Division of Subsistence  
12 is to

13 (1) gather, quantify, evaluate, and report data about uses, users, and methods  
14 of subsistence hunting and fishing; and

15 (2) make recommendations on the effects of federal and state laws and  
16 regulations on subsistence use.

17 \* Sec. 69. **DF&G - Division of Sport Fish.** The mission of the Division of Sport Fish  
18 is to manage, protect, maintain, improve, and extend the state's recreational fishery resources  
19 in the interest of the economy, consistent with the sustained yield principle and subject to  
20 allocations through public regulatory processes.

21 \* Sec. 70. **DF&G - Division of Wildlife Conservation.** The mission of the Division of  
22 Wildlife Conservation is to conserve and enhance Alaska's wildlife, consistent with the  
23 sustained yield principle, and to provide for a wide range of uses to the benefit of current and  
24 future generations of people.

25 **Article 8. Department of Health and Social Services.**

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26 \* Sec. 71. **Department of Health and Social Services.** The mission of the Department  
27 of Health and Social Services is to promote and protect the health and well-being of Alaska  
28 citizens with a focus on prevention and early intervention.

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29 \* Sec. 72. **DHSS - Office of the Commissioner.** The mission of the Office of the  
30 Commissioner is to promote and protect the well-being of Alaskans by investing in families  
31 and communities.

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1     \* **Sec. 73. DHSS - Division of Administrative Services.** The mission of the Division of  
2     Administrative Services is to provide quality administrative services that support the  
3     department's programs.

4     \* **Sec. 74. DHSS - Division of Public Assistance.** The mission of the Division of Public  
5     Assistance is to provide basic living expenses and self-sufficiency services to Alaskans in  
6     need.

7     \* **Sec. 75. DHSS - Division of Public Health.** The mission of the Division of Public  
8     Health is to preserve and promote the state's public health.

9     \* **Sec. 76. DHSS - Division of Alcoholism and Drug Abuse.** The mission of the Division  
10    of Alcoholism and Drug Abuse is to promote the health and well-being of Alaskans by  
11    preventing and treating the abuse of alcohol, other drugs and inhalants.

12    \* **Sec. 77. DHSS - Division of Medical Assistance.** The mission of the Division of  
13    Medical Assistance is to maintain access to quality health care for all Alaskans and to provide  
14    health coverage for Alaskans in need.

15    \* **Sec. 78. DHSS - Division of Family and Youth Services.** The mission of the Division  
16    of Family and Youth Services is to

17                 (1) protect children who are abused and neglected or at risk of abuse and  
18    neglect;

19                 (2) protect and restore communities and victims; and

20                 (3) rehabilitate juvenile offenders.

21    \* **Sec. 79. DHSS - Division of Mental Health and Developmental Disabilities.** The  
22    mission of the Division of Mental Health and Developmental Disabilities is to plan with and  
23    provide appropriate prevention, treatment, and support for consumers and their families  
24    affected by mental disorders or developmental disabilities, while maximizing their self-  
25    determination.

26                                 **Article 9. Department of Labor.**

27    \* **Sec. 80. Department of Labor.** The mission of the Department of Labor is to foster,  
28    promote, and improve working conditions and advance the opportunities for profitable  
29    employment of the wage earners of the state to the mutual benefit of employees and  
30    employers.

31    \* **Sec. 81. DOL - Office of the Commissioner.** The mission of the Office of the

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- 1 (2) ensure that employees are justly compensated for work;  
2 (3) safeguard workers from unscrupulous employment practices; and  
3 (4) ensure that children are not exploited in dangerous occupations.

4 (c) The mission of the Mechanical Inspection Section in the Division of Labor  
5 Standards and Safety is to protect employers and employees by

- 6 (1) providing oversight and inspection for hazards related to boilers, pressure  
7 vessels, elevators, escalators, wheelchair lifts, recreational devices, electrical and plumbing  
8 installations statewide;

9 (2) testing and licensing people associated with some of the activities set out  
10 in (1) of this subsection.

11 (d) The mission of the Occupational Safety and Health Administration in the Division  
12 of Labor Standards and Safety is to work in partnership with Alaska employers and workers  
13 toward eliminating workplace injuries, illnesses, and deaths, and to assist employers in  
14 complying with state and federal regulations relating to occupational safety and health.

15 (e) The mission of the Alaska State Advisory Council in the Division of Labor  
16 Standards and Safety is to work with organizations, individuals, and groups that are interested  
17 in the promotion of safety to reduce accidental death and injury.

18 **Article 10. Department of Law.**

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19 **\* Sec. 86. Department of Law.** The mission of the Department of Law is to

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- 20 (1) protect the state's sovereignty;  
21 (2) prosecute crime;  
22 (3) represent and advise the state in all civil matters; and  
23 (4) provide other legal services to state government.

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24 **\* Sec. 87. DLaw - Office of the Attorney General.** The mission of the Office of the  
25 Attorney General is to

- 26 (1) allocate state legal services;  
27 (2) represent the state in civil actions;  
28 (3) prosecute cases involving violation of state law.

29 **\* Sec. 88. DLaw - Division of Administrative Services.** The mission of the Division of  
30 Administrative Services is to provide core services that are essential to the day-to-day  
31 operation of the department and the management of department resources.

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1    \* **Sec. 89. DLaw - Civil Division.** The mission of the Civil Division is to protect  
2                   (1) the human, financial, and natural resources of the state by providing legal  
3 advice, prosecution, and defense; and

4                   (2) the state's sovereignty and guarantees of statehood.

5    \* **Sec. 90. DLaw - Criminal Division.** The mission of the Criminal Division is to

6                   (1) prosecute crime;

7                   (2) uphold convictions through appellate and post-conviction proceedings; and

8                   (3) provide effective representation for state criminal justice agencies.

9    \* **Sec. 91. DLaw - Office of Special Prosecutions and Appeals.** The mission of the  
10 Office of Special Prosecutions and Appeals is to prosecute complex economic and natural  
11 resource cases, and to uphold the state's position on appeals of criminal convictions and  
12 statutes relating to criminal justice.

13                   **Article 11. Department of Military and Veterans' Affairs.**

14    \* **Sec. 92. Department of Military and Veterans' Affairs.** The mission of the  
15 Department of Military and Veterans' Affairs is to provide strategically positioned, relevant,  
16 and ready military forces capable of rapid deployment, joint operations, and mission  
17 accomplishment in the state or throughout the world while also providing organizations  
18 capable of performing required and emergency services to Alaska.

19    \* **Sec. 93. DMVA - Division of Administrative Services.** The mission of the Division  
20 of Administrative Services is to provide effective and efficient administrative services to  
21 departmental employees and programs in order to maximize public service.

22    \* **Sec. 94. DMVA - Division of Emergency Services.** The mission of the Division of  
23 Emergency Services is to lead, coordinate, and support the emergency management system to  
24 protect lives and prevent the loss of property from all hazards.

25    \* **Sec. 95. DMVA - Facilities Management Office.** The mission of the Facilities  
26 Management Office is to provide, maintain, and operate safe, secure, high-quality facilities,  
27 training areas, and ranges for the Alaska Army National Guard on a cost-effective basis that  
28 meet or exceed unit mission requirements, environmental compliance standards, and energy  
29 efficiencies.

30    \* **Sec. 96. DMVA - Contracting and Project Management Section.** The mission of the  
31 contracting and project management section is to provide specified and unspecified minor

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1 successful citizens.

2 (b) The legislature intends to measure the success of the youth corps in achieving its  
3 mission by considering the percentage of

4 (1) graduates who receive their GED or reenter high school;

5 (2) students increasing English or math comprehension one grade level or  
6 more;

7 (3) enrollees who graduate from the youth corps program;

8 (4) graduates working in school, including continuing education, or training  
9 one year after graduation from the youth corps program.

10 **Article 12. Department of Natural Resources.**

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11 \* **Sec. 102. Department of Natural Resources.** The mission of the Department of 567 PF1  
12 Natural Resources is to develop, conserve, enhance, and make available natural resources for 243 PP  
13 present and future Alaskans.

14 \* **Sec. 103. DNR - Division of Support Services.** The mission of the Division of Support  
15 Services is to provide effective and efficient administrative services to departmental employees  
16 and programs in order to maximize public service.

17 \* **Sec. 104. DNR - Division of Oil and Gas.** The mission of the Division of Oil and Gas  
18 is to encourage maximum responsible oil and gas exploration and development.

19 \* **Sec. 105. DNR - Division of Agriculture.** The mission of the Division of Agriculture  
20 is to promote and encourage development of an agriculture industry in the state.

21 \* **Sec. 106. DNR - Division of Land.** (a) The mission of the Division of Land is to  
22 provide for maximum use and settlement of state land consistent with the public interest.

23 (b) The legislature intends to measure the success of the Division of Land in achieving  
24 its mission by considering

25 (1) the percentage of total entitlement acres that were acquired during the year;

26 (2) the percentage of trespass actions resolved;

27 (3) the percentage of Bureau of Land Management conveyance to third parties  
28 contested;

29 (4) the number of amendments to existing area plans;

30 (5) in regions without area plans, the number of site-specific plans as a  
31 measure of changing land classification and land use requirements;

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1 Management in achieving the mission set out in (a)(2) of this section when measuring the  
2 division's performance with respect to ownership by considering

3 (1) water rights and authorizations with complaints compared to total water  
4 rights and authorizations by type, such as residential, municipal, business, federal reserved  
5 water rights, and instream flows;

6 (2) the percentage of resource development projects applying for water permits  
7 receiving permits within appropriate time frame.

8 (g) The legislature intends to measure the success of the Division of Mining and  
9 Water Management in achieving the mission set out in (a)(2) of this section when measuring  
10 the division's performance with respect to data by considering the percentage of

11 (1) data requests satisfied within appropriate time frame, where data is  
12 available;

13 (2) times data is compatible with other users.

14 \* **Sec. 109. DNR - Division of Geological and Geophysical Surveys.** The mission of the  
15 Division of Geological and Geophysical Surveys is to determine

16 (1) the potential of Alaska land for production of metals, minerals, fuels, and  
17 geothermal resources;

18 (2) the locations and supplies of groundwater and construction material;

19 (3) the potential geologic hazards to buildings, roads, bridges, and other  
20 installations and structures.

21 \* **Sec. 110. DNR - Division of Parks and Outdoor Recreation.** The mission of the  
22 Division of Parks and Outdoor Recreation is to provide

23 (1) outdoor recreation opportunities and conserve and interpret natural, cultural,  
24 and historic resources; and

25 (2) services designed to encourage the development of local park and  
26 recreational facilities and programs.

27 **Article 14. Department of Public Safety.**

28 \* **Sec. 111. Department of Public Safety.** The mission of the Department of Public  
29 Safety is to ensure and maintain a safe, orderly, and positive environment in the state. This  
30 commitment is delivered through statewide police, resource protection, emergency response,  
31 fire safety, and other vital public safety services.

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1 is to produce highly trained and motivated professional law enforcement officers who meet  
2 or exceed the Alaska Police Standards Council requirements.

3 \* **Sec. 121. DPS - Violent Crimes Compensation Board.** The mission of the Violent  
4 Crimes Compensation Board is to decrease the financial and emotional damage to innocent  
5 victims caused by the trauma of violent crime.

6 **Article 15. Department of Revenue.**

7 \* **Sec. 122. Department of Revenue.** The mission of the Department of Revenue is to  
8 collect, manage, invest, and distribute revenue and child support payments for the state, and  
9 to provide necessary administrative support to entities under the aegis of the department.

10 \* **Sec. 123. DRev - Office of the Commissioner.** The mission of the Office of the  
11 Commissioner is to

12 (1) assist the divisions in the department in setting and reaching their goals at  
13 the lowest possible cost and with the best service to the public;

14 (2) provide information and expertise as needed by the Office of the Governor,  
15 other departments, and the legislature in managing the state's finances;

16 (3) operate the hearing officer section for child support, permanent fund  
17 dividend, and charitable gaming appeals.

18 \* **Sec. 124. DRev - Division of Administrative Services.** The mission of the Division of  
19 Administrative Services is to assist the operating divisions in the department in achieving their  
20 stated goals in finding new and innovative ways to provide services to the public.

21 \* **Sec. 125. DRev - Oil and Gas Audit Division.** The mission of the Oil and Gas Audit  
22 Division is to equitably, efficiently, and expeditiously administer and collect production and  
23 property taxes and royalties and to assist policymakers with oil and gas issues.

24 \* **Sec. 126. DRev - Permanent Fund Dividend Division.** The mission of the Permanent  
25 Fund Dividend Division is to ensure that eligible Alaskans receive permanent fund dividends  
26 promptly, deny ineligible applicants, and process levies of permanent fund dividends.

27 \* **Sec. 127. DRev - Alaska Permanent Fund Corporation.** The mission of the Alaska  
28 Permanent Fund Corporation is to maximize the value of the permanent fund through prudent  
29 long term investment and protection of principal to produce income to benefit all generations  
30 of Alaskans.

31 \* **Sec. 128. DRev - Treasury Division.** The mission of the Treasury Division is to

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1     **\* Sec. 134. DRev - Alaska Housing Finance Corporation.** The mission of the Alaska  
2     Housing Finance Corporation is to provide Alaskans with access to safe, quality, affordable  
3     housing.

4     **\* Sec. 135. DRev - Alcohol Beverage Control Board.** (a) The mission of the Alcohol  
5     Beverage Control Board is to protect the health, safety, and welfare of Alaskans by limiting  
6     the misuse of alcohol.

7             (b) The legislature intends to measure the success of the Alcohol Beverage Control  
8     Board in achieving its mission by considering

9                 (1) the percentage of licensees in compliance for one full year regarding  
10     serving to minors, serving to drunken persons, and server training; and

11                (2) the percentage of servers trained in compliance for one full year.

12               **Article 16. Department of Transportation and Public Facilities.**

335,710.3

13     **\* Sec. 136. Department of Transportation and Public Facilities.** The mission of the  
14     Department of Transportation and Public Facilities is to plan, design, construct, and maintain  
15     all state modes of transportation and transportation facilities, and docks, floats, breakwaters,  
16     buildings, and similar facilities.

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17     **\* Sec. 137. DOT/PF - Aviation.** The mission of the department with respect to aviation  
18     is to plan, establish, construct, enlarge, improve, maintain, equip, lease, contract, operate,  
19     regulate, protect, and police airports and air navigation facilities in the state system of airports.

20     **\* Sec. 138. DOT/PF - Public facilities.** The mission of the department with respect to  
21     public facilities is to manage, operate, and maintain state public facilities.

22     **\* Sec. 139. DOT/PF - Highway maintenance and operations.** The mission of the  
23     department with respect to highway maintenance and operations is to maintain, protect, and  
24     control the state's highway system.

25     **\* Sec. 140. DOT/PF - Equipment fleet.** The mission of the department with respect to  
26     the equipment fleet is to allocate, maintain, and manage state-owned vehicles, equipment, and  
27     attachments for safe and appropriate use.

28     **\* Sec. 141. DOT/PF - Office of the Commissioner.** The mission of the Office of the  
29     Commissioner is to provide executive leadership to all activities of the department and to  
30     coordinate with the executive and legislative branches of state government, other state  
31     agencies, and the federal government.

1-LS0874\K.a

1    \* **Sec. 142. DOT/PF - Division of Administrative Services.** The mission of the Division  
2 of Administrative Services is to support the department's operations with quality  
3 administration and information technology.

4    \* **Sec. 143. DOT/PF - Division of Measurement Standards and Commercial Vehicle**  
5 **Enforcement.** The mission of the Division of Measurement Standards and Commercial  
6 Vehicle Enforcement is to provide public protection by enforcing statutory and regulatory  
7 policies in the truck size, weight, and safety enforcement program, and the weights and  
8 measures program.

9    \* **Sec. 144. DOT/PF - Division of Statewide Design and Engineering Services.** The  
10 mission of the Division of Statewide Design and Engineering Services is to provide  
11 engineering, environmental, estimating, and other preconstruction services to develop highway,  
12 aviation, marine structure, and facilities projects.

13   \* **Sec. 145. DOT/PF - Division of Statewide Planning.** The mission of the Division of  
14 Statewide Planning is to develop the statewide transportation improvement program, the  
15 statewide transportation improvement plan, and regional plans through a public process that  
16 results in orderly project and capital budget sequencing and conduct highway data collection.

17   \* **Sec. 146. DOT/PF - Construction.** The mission of the department with respect to  
18 construction is to administer construction projects to ensure that the projects are built safely  
19 and in conformance with all applicable laws, ordinances, and regulations.

20   \* **Sec. 147. DOT/PF - Marine Highway System.** (a) The mission of the Marine  
21 Highway System is to assist in meeting the transportation needs of the traveling public and  
22 communities served.

23       (b) The legislature intends to measure the success of the Marine Highway System in  
24 achieving its mission by considering

- 25           (1) the percentage of on-time departures of vessels;  
26           (2) the revenue received and expenditures made for each rider mile;  
27           (3) the total ridership, including passengers, vehicles, and cabin occupancy,  
28 compared to the five-year ridership average;  
29           (4) the onboard sales for each passenger.

30                           **Article 17. University of Alaska.**

31   \* **Sec. 148. University of Alaska.** The mission of the University of Alaska is to provide

466,295.9  
3,387 Pf  
233 P.



September 29, 1999

**DON VALESKO**  
Business Manager/  
Secretary-Treasurer

**VALERIE K. BAFFONE**  
Assistant Business Manager

**HEADQUARTERS**  
2510 Arctic Blvd.  
Anchorage, Alaska 99503  
FAX (907) 279-7171  
(907) 276-7211

2122 Airport Way  
Fairbanks, Alaska 99701  
FAX (907) 456-1771  
(907) 452-5024

710 West 9th Street  
Juneau, Alaska 99801  
FAX (907) 586-5757  
(907) 586-6993

Representative John Cowdery  
Alaska State Legislature  
716 W. 4<sup>th</sup>  
Anchorage, AK 99501-2133

Dear Representative John Cowdery,

I object to your letter designed to ask state employees how they might help the Privatization Commission privatize their jobs. I believe that the commission should have brought up this letter idea and discussed it before any action by the Co-Chairs was taken.

As the lone labor representative on the committee that is charged with representing employees I ask that the letter not be sent without thoroughly discussing all possibilities during a commission meeting

If you intend to send the aforementioned letter after reading this, you can count on me not to sign it.

Sincerely,

Don Valesko,  
Business Manager/Secretary-Treasurer

cc: Commission Members



and Delivery of Government Services

Co-Chairs:  
Representative John Cowdery  
Senator Jerry Ward

Senator Al Adam  
Bill Allen  
Representative Tom Brice  
Tom Fink  
William Prosser  
Helvi Sandvik  
Kathryn Thomas  
Don Valesko  
George Wuerch

# FAX COVER SHEET

To: Rep. COWDERY } 465-  
Sen. WARD } - 2069  
Number: } - 2832

From: MARCO

Number:

Date:

Subject:

# of pages including cover: 5

Notes:

**Interim:**  
716 West 4<sup>th</sup> Ave., Suite 320  
Anchorage, AK 99501

Phone: 907-269-0222  
Fax: 907-269-0223  
Toll Free: 1-888-269-3879



**Representative**  
**John J. Cowdery**  
Chairman-elect  
House Rules Committee

**Session:**  
State Capitol Bldg., Suite 416  
Juneau, AK 99801

Phone: 907-465-3879  
Fax: 907-465-2069  
Toll Free: 1-888-269-3879

**DATE:** Sept 28, 1999

**TO:** Sen. Ward  
Rep. Cowdery

**FROM:** Marco

**RE:** Privatization Commission outreach to state employees

Attached is a copy of the memo the Privatization Commission proposes be sent to all state employees via the state email system. Eight commissioners have signed it. Valesko objects to sending it. Brice hasn't responded. Notti hasn't been asked.

The Commissioner of Administration, Bob Poe, must approve using the state email system for universal distribution. He is denying us access because the Commission is not an 'official' agency of the state.

Inasmuch as you have a majority of the commission backing you, I think you are safe sending it out over your names alone. Alternatively, we can put on only the names that have concurred.

There are no guidelines for using the statewide email system for state employees. I recently took Lt. Gov. Ulmer to task for politicizing it. (See attached.) I've asked Legislative Research to tell me what guidelines exist in other states. While you are in Juneau, you may want to consider asking the governor to over rule Poe. He will come out the loser if it becomes a public issue.



and Delivery of Government Services

**Co-Chairs:**

Representative John Cowdery  
Senator Jerry Ward

Senator Al Adams  
Bill Allen  
Representative Tom Brice  
Tom Fink  
Michael Harper  
William Prosser  
Kathryn Thomas  
Don Valesko  
George Wuerch

Dear State of Alaska Employee:

You should have heard by now that Governor Knowles and legislators have formed a State Commission on Privatization and Delivery of Government Services.

As state employees, you have an intimate knowledge of where efficiencies can be implemented in your particular jobs.

We, the members of the commission, hope you will seriously consider submitting ideas you may have for making government run as efficiently as possible.

Your ideas for making government more cost-effective benefit you personally AND benefit your fellow Alaskans.

Changing the way we do business is vital to saving jobs and balancing the budget.

Other states have implemented programs and have brought about efficiencies in their state governments.

Let's all work together towards resolving our fiscal crisis.

Please be advised that AS 39.90.100, the Protection for Whistleblowers Act, is in effect as you participate in this public process. Specifically, the law states that a public employer may not disqualify a public employee or other person who reports a matter of public concern or participates in a proceeding connected with a matter of public concern.

Go to the Commission of Privatization and Delivery of Government Services home page at <http://www.privatizealaska.org> and click on "CONTACT." The toll free number is 1(888) 562-7474; in Anchorage 269-0226; or e-mail "privatize@legis.state.ak.us."

We commend any and all efforts on your part to help us in our task.

**Commission Members:**

Representative John Cowdery, Co-chair  
Senator Jerry Ward, Co-chair  
Senator Al Adams  
Representative Tom Brice  
Bill Allen  
Tom Fink  
Michael C. Harper  
William Prosser  
Kathryn Thomas  
Don Valesko  
George Wuerch

716 W. 4<sup>th</sup> Ave. Anchorage, AK 99501  
Senator Jerry Ward: 907-269-0107 Fax 907-269-0109  
Representative John Cowdery: 907-269-0222 Fax 907-269-0223

Re: [Fwd: Returned mail: User unknown]

**Subject: Re: [Fwd: Returned mail: User unknown]**

**Date:** Thu, 23 Sep 1999 16:56:14 -0800

**From:** Bob Poe <bob\_poe@admin.state.ak.us>

**Organization:** Department of Administration

**To:** Marco Pignalberi <Marco\_Pignalberi@legis.state.ak.us>

Marco, we have never allowed this before, and I am probably not in favor of it now. I would be happy to discuss with you further, but at this point I don't think this would be an appropriate use of the state's e-mail function. By the way, the union isn't even allowed to use it to talk to state employees. The Privatization Committee members are not employed by the state and do not have a formal role with the state. However, this being said about an "all employee" e-mail, we do have a complete list of employee e-mail addresses available through the state's web site at [www.state.ak.us](http://www.state.ak.us), and Andree could use that to contact specific employees that she would like to get ideas from. This information and access is available to the general public. Thanks, Bob.

Marco Pignalberi wrote:

```
>
> -----
>
> Subject: Returned mail: User unknown
> Date: Mon, 20 Sep 1999 14:06:05 -0800
> From: Mail Delivery Subsystem <MAILER-DAEMON@anc-proxy.legis.state.ak.us>
> To: <Marco_Pignalberi@legis.state.ak.us>
>
> The original message was received at Mon, 20 Sep 1999 14:06:01 -0800
> from lhscmap-2.dyn.legis.state.ak.us [146.63.193.212]
>
> ----- The following addresses had permanent fatal errors -----
> <Bob_Poe@legis.state.ak.us>
>
> ----- Transcript of session follows -----
> ... while talking to smtp.legis.state.ak.us:
> >>> RCPT To:<Bob_Poe@legis.state.ak.us>
> <<< 550 <Bob_Poe@legis.state.ak.us>... User unknown
> 550 <Bob_Poe@legis.state.ak.us>... User unknown
>
> -----
> Reporting-MTA: dns; anc-proxy.legis.state.ak.us
> Received-From-MTA: DNS; lhscmap-2.dyn.legis.state.ak.us
> Arrival-Date: Mon, 20 Sep 1999 14:06:01 -0800
>
> Final-Recipient: RFC822; Bob_Poe@legis.state.ak.us
> Action: failed
> Status: 5.1.1
> Remote-MTA: DNS; smtp.legis.state.ak.us
> Diagnostic-Code: SMTP; 550 <Bob_Poe@legis.state.ak.us>... User unknown
> Last-Attempt-Date: Mon, 20 Sep 1999 14:06:05 -0800
>
> -----
>
> Subject: email to all state employees
> Date: Mon, 20 Sep 1999 14:02:10 -0800
> From: Marco Pignalberi <Marco_Pignalberi@legis.state.ak.us>
> Organization: Alaska State Legislature
> To: Bob_Poe@legis.state.ak.us
>
> Bob,
> The Privatization Commission wants to send an email letter to all state
> employees. Please advise what the process is to accomplish same.
```

**Subject: Campaign Pain**

**Date:** Thu, 02 Sep 1999 13:50:56 -0800

**From:** Marco Pignalberi <Marco\_Pignalberi@legis.state.ak.us>

**Organization:** Alaska State Legislature

**To:** "Fran A. Ulmer" <fran\_ulmer@gov.state.ak.us>

**BCC:** lhscmap+majority@legis.state.ak.us

Fran, thank you for the rah-rah message for on-line training, aka, the Literacy Initiative. However, your message strikes me as being a political campaign ploy for three reasons. First, the message simply wasn't necessary. It was redundant with the same info contained with the pay checks. Second, the information could have been delivered by a line-agency responsible for "employee training" (Dept, of Labor), "technology implementation" (Dept, of Administration) or "education" (DOE). It wasn't necessary for the information to come from the political echelon. Third, the program you announced isn't really a new program at all. I took my first lesson on this system two years ago. So, I think you can see why some of us believe you are exploiting your position for personal promotion and ultimately campaign purposes. I would like to know if the executive branch has guidelines in place that govern the use of the state's email system. If I want to respond to your message to the same audience, can I do it? I look forward to hearing from you.

Regards, Marco Pignalberi

## General Business:

### **Adak base closure hits area's population**

The western Aleutians have the dubious distinction of having the biggest percentage population drop in the nation from 1990 to 1998, according to U.S. Census Bureau figures. The reason was the closure of the Adak Naval Air Station, which was the state's eight-largest city in the early 1990s, with a population of about 6,000. The base closed in 1997, and the population of the area dropped by 59 percent.

\*\*\*

### **Privatization: Don't expect much**

Business leaders aren't happy with the legislature's Privatization Commission being led by State Sen. Jerry Ward and Rep. John Cowdery. Some business people are participating but the group is clearly being led by the legislators and an apparent political agenda, according to the complaints. The upshot: Don't expect much from the Commission.

\*\*\*

### **State's unemployment continues low**

Alaska's unemployment dropped to 4.6 percent last month, the second-lowest jobless rate since 1978, according to the state's labor department. However, this August's rate was higher than last year's 4.3 percent. Biggest job gains were in the construction, transportation, communications and utilities sectors. Manufacturing lost 1,400 jobs because of a seasonal decline in seafood processing work. The Aleutians East had the lowest jobless rate at 1.3 percent. Anchorage's rate fell from 3.6 percent in July to 3.3 percent in August. Fairbanks' was 4.2 percent, down from 4.6 percent. The Kenai Peninsula reported 7.1 percent jobless, down from 7.6 in July. Juneau saw its rate down to 3.9 percent from 4.2 percent. Ketchikan's rate dropped .9 percent to 4 percent. Sitka reported a 3.6 percent rate, down from 4 percent.

\*\*\*

### **Tax increase by initiative? (Cont.)**

*(Continued from page 1)* -tation among citizens to push new taxes on business, rather than themselves. Alaska isn't the only state with these kind of initiatives. In Washington state, a popular initiative to roll back state auto registration fees includes language that any state tax or fee increase must be approved by voters.

Alaska Economic Report # 18/99\*\*\*

## Petroleum:

### **State postpones Beaufort lease sale**

The state postponed a Beaufort Sea Area-wide oil and gas lease sale scheduled for Oct. 13 because of the pending takeover of ARCO by BP Amoco, officials said. Though the offshore tracts are outside the rule requiring BP to divest some of its undeveloped leases if it takes over ARCO, officials said that "uncertainties in future leaseholdings on the North Slope may make it difficult for prospective bidders to properly evaluate oil and gas opportunities on the lands to be offered." Just last week, several environmental groups filed a motion to get an injunction to stop the sale citing the state's inadequate evaluation of how any oil found offshore would be transported.

\*\*\*

### **Pipeline workers: \$18 million settlement**

Nearly 3,600 electrical workers who worked on the trans-Alaska oil pipeline in the 1970s will share \$18 million in a settlement with the Electrical Pension Fund. This is one of the several lawsuits involving pipeline construction workers who were deprived of pensions after working on the \$9 billion project. Under the settlement, the Alaska Electrical Pension Fund in Anchorage, which handles pensions for the Anchorage-based International Brotherhood of Electrical Workers Local 1547, has agreed to pay 3,577 former members laid off between Jan. 1, 1978 and Dec. 31, 1979, the plaintiffs lawyer said. Those who qualify must file for their share by Dec. 31. So far, 2,506 people have claims, including 248 Alaskans, officials said.

\*\*\*

### **Alaska oil prices above \$24/barrel**

The price of Alaska North Slope crude has been on an upward trend—soaring past \$24 this month—more than doubling since last December when the crude sold at record low prices. As prices rise there is mounting concern about low inventories. The last American Petroleum Institute's report showed U.S. stocks at 311 million barrels, with inventory dropping 3 million barrels in recent weeks. If the inventory decline continues at that pace, it would mean the total could drop below 300 million level by early October. Industry analysts said when the inventory gets below 300 million then the market is considered to be a very tight.

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## **Address Book Document**

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### **Adams, Senator Al**

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Alaska State Legislature  
Room 417  
State Capitol  
Juneau AK 99801-1182  
Bus: 907-267-2734  
Bus Fax: 907-349-2814  
E-mail: Senator\_Al\_Adams@legis.state.ak.us

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### **Allen, Bill**

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General Manager  
Doyon Properties, Inc.  
714 4th Avenue, Suite 302B  
Fairbanks AK 99701  
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Bus Fax: 907-451-7274  
E-mail: allenb@doyon.com

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### **Brice, Representative Tom**

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Bus Fax: 907-451-9293  
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### **Cowdery, Representative John**

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### **Fink, Tom**

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Bus: 279-2522  
Bus Fax: 279-2566  
Home: 279-3142

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**George Wuerch**

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Bus Fax: 561-3793  
E-mail: wuerch@alaska.net

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**Harper, Michael**

---

Kuskokwim Corporation  
2000 W. Int'l Airport Road, Ste. C-9  
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**Prosser, Bill**

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P.O. Box 93330  
Anchorage AK 99509-3330  
Bus: 274-8638  
Bus Fax: 263-5182  
E-mail: poneill@ciri.com

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**Thomas, Kathryn**

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Alaska State Chamber of Commerce  
217 Second Street, Suite 201  
Juneau AK 99801  
Bus: 907-776-5515  
Bus Fax: 907-776-5132  
E-mail: asccjuno@ptialaska.net

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**Valesko, Don**

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2510 Arctic Blvd.  
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Bus Fax: 279-7171  
E-mail: local71@alaska.net

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**Ward, Senator Jerry**

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Alaska State Legislature  
716 W. 4th Ave. Suite 450  
Anchorage AK 99501-2133  
Bus: 269-0106  
Bus Fax: 269-0109  
E-mail: [Senator\\_Jerry\\_Ward@legis.state.ak.us](mailto:Senator_Jerry_Ward@legis.state.ak.us)

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**Subject:** OMB Circular A-76

**Date:** Thu, 16 Sep 1999 03:43:51 -0800

**From:** Marco Pignalberi <marco@alaska.net>

**Organization:** Starring You

**To:** Annette\_Deal@legis.state.ak.us

<http://www1.whitehouse.gov/OMB/circulars/a076/a076.html>

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

CIRCULAR NO. A-76 (REVISED 1999)

August 4, 1983

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Performance of Commercial Activities

1. **Purpose.** This Circular establishes Federal policy regarding the performance of commercial activities and implements the statutory requirements of the Federal Activities Inventory Reform Act of 1998, Public Law 105-270. The Supplement to this Circular sets forth the procedures for determining whether commercial activities should be performed under contract with commercial sources or in-house using Government facilities and personnel.
2. **Rescission.** OMB Circular No. A-76 (Revised), dated March 29, 1979; and Transmittal Memoranda 1 through 14 and 16 through 18.
3. **Authority.** The Budget and Accounting Act of 1921 (31 U.S.C. 1 *et seq.*), The Office of Federal Procurement Policy Act Amendments of 1979. (41 U.S.C. 401 *et seq.*), and The Federal Activities Inventory Reform Act of 1998. (P. L. 105-270).
4. **Background.**
  - a. In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs.
  - b. This national policy was promulgated through Bureau of the Budget Bulletins issued in 1955, 1957 and 1960. OMB Circular No. A-76 was issued in 1966. The Circular was previously revised in 1967, 1979, and 1983. The Supplement (Revised Supplemental Handbook) was previously revised in March 1996 (Transmittal Memorandum 15).
5. **Policy.** It is the policy of the United States Government to:

- a. ***Achieve Economy and Enhance Productivity.*** Competition enhances quality, economy, and productivity. Whenever commercial sector performance of a Government operated commercial activity is permissible, in accordance with this Circular and its Supplement, comparison of the cost of contracting and the cost of in-house performance shall be performed to determine who will do the work. When conducting cost comparisons, agencies must ensure that all costs are considered and that these costs are realistic and fair.
- b. ***Retain Governmental Functions In-House.*** Certain functions are inherently Governmental in nature, being so intimately related to the public interest as to mandate performance only by Federal employees. These functions are not in competition with the commercial sector. Therefore, these functions shall be performed by Government employees.
- c. ***Rely on the Commercial Sector.*** The Federal Government shall rely on commercially available sources to provide commercial products and services. In accordance with the provisions of this Circular and its Supplement, the Government shall not start or carry on any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source.

**6. Definitions.** For purposes of this Circular:

- a. A *commercial activity* is one which is operated by a Federal executive agency and which provides a product or service that could be obtained from a commercial source. Activities that meet the definition of an inherently Governmental function provided below are not commercial activities. A representative list of commercial activities is provided in Attachment A. A commercial activity also may be part of an organization or a type of work that is separable from other functions or activities and is suitable for performance by contract.
- b. A *conversion to contract* is the changeover of an activity from Government performance to performance under contract by a commercial source.
- c. A *conversion to in-house* is the changeover of an activity from performance under contract to Government performance.
- d. A *commercial source* is a business or other non-Federal activity located in the United States, its territories and possessions, the District of Columbia or the Commonwealth of Puerto Rico, which provides a commercial product or service.
- e. An *inherently Governmental function* is a function which is so intimately related to the public interest as to mandate performance by Government employees. Consistent with the definitions provided in the Federal Activities Inventory Reform Act of 1998 and OFPP Policy Letter 92-1, these functions include those activities which require either the exercise of discretion in applying Government authority or the use of value judgment in making decisions for the Government. Services or products in support of inherently Governmental functions, such as those listed in Attachment A, are commercial activities and are normally subject to this Circular. Inherently Governmental functions normally fall into two categories:

(1) The *act of governing*; i.e., the discretionary exercise of Government authority. Examples include criminal investigations, prosecutions and other judicial functions; management of Government programs requiring value judgments, as in direction of the national defense; management and direction of

the Armed Services; activities performed exclusively by military personnel who are subject to deployment in a combat, combat support or combat service support role; conduct of foreign relations; selection of program priorities; direction of Federal employees; regulation of the use of space, oceans, navigable rivers and other natural resources; direction of intelligence and counter-intelligence operations; and regulation of industry and commerce, including food and drugs.

(2) *Monetary transactions and entitlements*, such as tax collection and revenue disbursements; control of the Treasury accounts and money supply; and the administration of public trusts.

- f. A *cost comparison* is the process of developing an estimate of the cost of Government performance of a commercial activity and comparing it, in accordance with the requirements of the Supplement, to the cost to the Government for contract performance of the activity.
- g. *Directly affected parties* are Federal employees and their representative organizations and bidders or offerors on the instant solicitation.
- h. *Interested parties* for purposes of challenging the contents of an agency's Commercial Activities Inventory under the Federal Activities Inventory Reform Act of 1998 are:

(1) A private sector source that (A) is an actual or prospective offeror for any contract or other form of agreement to perform the activity; and (B) has a direct economic interest in performing the activity that would be adversely affected by a determination not to procure the performance of the activity from a private sector source.

(2) A representative of any business or professional association that includes within its membership private sector sources referred to in (1) above.

(3) An officer or employee of an organization within an executive agency that is an actual or prospective offeror to perform the activity.

(4) The head of any labor organization referred to in section 7103(a) (4) of Title 5, United States Code that includes within its membership officers or employees of an organization referred to in (3) above.

## 7. Scope.

- a. Unless otherwise provided by law, this Circular and its Supplement shall apply to all executive agencies and shall provide administrative direction to heads of agencies.
- b. This Circular and its Supplement apply to printing and binding only in those agencies or departments which are exempted by law from the provisions of Title 44 of the U.S. Code.
- c. This Circular and its Supplement shall not:

(1) Be applicable when contrary to law, Executive Orders, or any treaty or international agreement;

- (2) Apply to inherently Governmental functions as defined in paragraph 6.e.;
  - (3) Apply to the Department of Defense in times of a declared war or military mobilization;
  - (4) Provide authority to enter into contracts;
  - (5) Authorize contracts which establish an employer-employee relationship between the Government and contractor employees. An employer-employee relationship involves close, continual supervision of individual contractor employees by Government employees, as distinguished from general oversight of contractor operations. However, limited and necessary interaction between Government employees and contractor employees, particularly during the transition period of conversion to contract, does not establish an employer-employee relationship.
  - (6) Be used to justify conversion to contract solely to avoid personnel ceilings or salary limitations;
  - (7) Apply to the conduct of research and development. However, severable in-house commercial activities in support of research and development, such as those listed in Attachment A, are normally subject to this Circular and its Supplement; or
  - (8) Establish and shall not be construed to create any substantive or procedural basis for anyone to challenge any agency action or inaction on the basis that such action or inaction was not in accordance with this Circular, except as specifically set forth in Part 1, Chapter 3, paragraph 15 of the Supplement, "Appeals of Cost Comparison Decisions" and as set forth in Appendix 2, Paragraph G, consistent with Section 3 of the Federal Activities Inventory Reform Act of 1998.
- d. The requirements of the Federal Activities Inventory Reform Act of 1998 apply to the following executive agencies:
- (1) an executive department named in 5 USC 101,
  - (2) a military department named in 5 USC 102, and
  - (3) an independent establishment as defined in 5 USC 104.
- e. The requirements of the Federal Activities Inventory Reform Act of 1998 do not apply to the following entities or activities:
- (1) the General Accounting Office,
  - (2) a Government corporation or a Government controlled corporation as defined in 5 USC 103,
  - (3) a non-appropriated funds instrumentality if all of its employees are referred to in 5 USC 2105(c), or
  - (4) Depot-level maintenance and repair of the Department of Defense as defined in 10

## USC 2460.

**8. Government Performance of a Commercial Activity.** Government performance of a commercial activity is authorized under any of the following conditions:

a. *No Satisfactory Commercial Source Available.* Either no commercial source is capable of providing the needed product or service, or use of such a source would cause unacceptable delay or disruption of an essential program. Findings shall be supported as follows:

(1) If the finding is that no commercial source is capable of providing the needed product or service, the efforts made to find commercial sources must be documented and made available to the public upon request. These efforts shall include, in addition to consideration of preferential procurement programs (see Part I, Chapter 1, paragraph C of the Supplement) at least three notices describing the requirement in the *Commerce Business Daily* over a 90-day period or, in cases of *bona fide* urgency, two notices over a 30-day period. Specifications and requirements in the solicitation shall not be unduly restrictive and shall not exceed those required of in-house Government personnel or operations.

(2) If the finding is that a commercial source would cause unacceptable delay or disruption of an agency program, a written explanation, approved by the assistant secretary or designee in paragraph 9.a. of the Circular, must show the specific impact on an agency mission in terms of cost and performance. Urgency alone is not adequate reason to continue in-house operation of a commercial activity. Temporary disruption resulting from conversion to contract is not sufficient support for such a finding, nor is the possibility of a strike by contract employees. If the commercial activity has ever been performed by contract, an explanation of how the instant circumstances differ must be documented. These decisions must be made available to the public upon request.

(3) Activities may not be justified for in-house performance solely on the basis that the activity involves or supports a classified program or the activity is required to perform an agency's basic mission.

b. *National Defense.*

(1) The Secretary of Defense shall establish criteria for determining when Government performance of a commercial activity is required for national defense reasons. Such criteria shall be furnished to OMB, upon request.

(2) Only the Secretary of Defense or his designee has the authority to exempt commercial activities for national defense reasons.

c. *Patient Care.* Commercial activities performed at hospitals operated by the Government shall be retained in-house if the agency head, in consultation with the agency's chief medical director, determines that in-house performance would be in the best interests of direct patient care.

d. *Lower cost.* Government performance of a commercial activity is authorized if a cost comparison prepared in accordance with the Supplement demonstrates that the Government is

operating or can operate the activity on an ongoing basis at an estimated lower cost than a qualified commercial source.

**9. Action Requirements.** To ensure that the provisions of this Circular and its Supplement are followed, each agency head shall:

- a. Designate an official at the assistant secretary or equivalent level and officials at a comparable level in major component organizations to have responsibility for implementation of this Circular and its Supplement within the agency.
- b. Establish one or more offices as central points of contact to carry out implementation. These offices shall have access to all documents and data pertinent to actions taken under the Circular and its Supplement and will respond in a timely manner to all requests concerning inventories, schedules, reviews, results of cost comparisons and cost comparison data.
- c. Be guided by Federal Acquisition Regulation (FAR) Subpart 24.2 (Freedom of Information Act) in considering requests for information.
- d. Implement this Circular and its Supplement with a minimum of internal instructions. Cost comparisons shall not be delayed pending issuance of such instructions.
- e. Ensure the reviews of all existing in-house commercial activities are completed within a reasonable time in accordance with the Federal Activities Inventory Reform Act of 1998 and the Supplement.

**10. Annual Reporting Requirement.** As required by the Federal Activities Inventory Reform Act of 1998 and Appendix 2 of the Supplement, no later than June 30 of each year, agencies shall submit to OMB a Commercial Activities Inventory and any supplemental information requested by OMB. After review and consultation by OMB, agencies will transmit a copy of the Commercial Activities Inventory to Congress and make the contents of the Inventory available to the public. Agencies will follow the process provided in the Supplement for interested parties to challenge (and appeal) the contents of the inventory.

**11. OMB Responsibility and Contact Point.** All questions or inquiries should be submitted to the Office of Management and Budget, Room 6002 NEOB, Washington, DC 20503. Telephone number (202) 395-6104, FAX (202) 395-7230.

**12. Effective Date.** This Circular and the changes to its Supplement are effective immediately.

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**Attachment A**  
**OMB Circular No. A-76**

## **EXAMPLES OF COMMERCIAL ACTIVITIES**

### **Audiovisual Products and Services**

Photography (still, movie, aerial, etc.)

Photographic processing (developing, printing, enlarging, etc.)

- Film and videotape production (script writing, direction, animation, editing, acting, etc.)
- Microfilming and other microforms
- Art and graphics services
- Distribution of audiovisual materials
- Reproduction and duplication of audiovisual products
- Audiovisual facility management and operation
- Maintenance of audiovisual equipment

### **Automatic Data Processing**

- ADP services - batch processing, time-sharing, facility management, etc.
- Programming and systems analysis, design, development, and simulation
- Key punching, data entry, transmission, and teleprocessing services
- Systems engineering and installation
- Equipment installation, operation, and maintenance

### **Food Services**

- Operation of cafeterias, mess halls, kitchens, bakeries, dairies, and commissaries
- Vending machines
- Ice and water

### **Health Services**

- Surgical, medical, dental, and psychiatric care
- Hospitalization, outpatient, and nursing care
- Physical examinations
- Eye and hearing examinations and manufacturing and fitting glasses and hearing aids
- Medical and dental laboratories
- Dispensaries
- Preventive medicine
- Dietary services
- Veterinary services

### **Industrial Shops and Services**

- Machine, carpentry, electrical, plumbing, painting, and other shops
- Industrial gas production and recharging
- Equipment and instrument fabrication, repair and calibration
- Plumbing, heating, electrical, and air conditioning services, including repair
- Fire protection and prevention services
- Custodial and janitorial services
- Refuse collection and processing

### **Maintenance, Overhaul, Repair, and Testing**

- Aircraft and aircraft components
- Ships, boats, and components
- Motor vehicles
- Combat vehicles

- Railway systems
- Electronic equipment and systems
- Weapons and weapon systems
- Medical and dental equipment
- Office furniture and equipment
- Industrial plant equipment
- Photographic equipment
- Space systems

### **Management Support Services**

- Advertising and public relations services
- Financial and payroll services
- Debt collection

### **Manufacturing, Fabrication, Processing, Testing, and Packaging**

- Ordnance equipment
- Clothing and fabric products
- Liquid, gaseous, and chemical products
- Lumber products
- Communications and electronics equipment
- Rubber and plastic products
- Optical and related products
- Sheet metal and foundry products
- Machined products
- Construction materials
- Test and instrumentation equipment

### **Office and Administrative Services**

- Library operations
- Stenographic recording and transcribing
- Word processing/data entry/typing services
- Mail/messenger
- Translation
- Management information systems, products and distribution
- Financial auditing and services
- Compliance auditing
- Court reporting
- Material management
- Supply services

### **Other Services**

- Laundry and dry cleaning
- Mapping and charting
- Architect and engineer services
- Geological surveys
- Cataloging

Training -- academic, technical, vocational, and specialized  
Operation of utility systems (power, gas, water steam, and sewage)  
Laboratory testing services

### **Printing and Reproduction**

Facility management and operation  
Printing and binding -- where the agency or department is exempted from the provisions of Title 44 of the U.S. Code  
Reproduction, copying, and duplication  
Blueprinting

### **Real Property**

Design, engineering, construction, modification, repair, and maintenance of buildings and structures; building mechanical and electrical equipment and systems; elevators; escalators; moving walks  
Construction, alteration, repair, and maintenance of roads and other surfaced areas  
Landscaping, drainage, mowing and care of grounds  
Dredging of waterways

### **Security**

Guard and protective services  
Systems engineering, installation, and maintenance of security systems and individual privacy systems  
Forensic laboratories

### **Special Studies and Analyses**

Cost benefit analyses  
Statistical analyses  
Scientific data studies  
Regulatory studies  
Defense, education, energy studies  
Legal/litigation studies  
Management studies

### **Systems Engineering, Installation, Operation, Maintenance, and Testing**

Communications systems - voice, message, data, radio, wire, microwave, and satellite  
Missile ranges  
Satellite tracking and data acquisition  
Radar detection and tracking  
Television systems - studio and transmission equipment, distribution systems, receivers, antennas, etc.  
Recreational areas  
Bulk storage facilities

### **Transportation**

Operation of motor pools  
Bus service  
Vehicle operation and maintenance  
Air, water, and land transportation of people and things  
Trucking and hauling

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**CIRCULAR NO. A-76**  
**Revised Supplemental Handbook**

**PERFORMANCE OF COMMERCIAL  
ACTIVITIES**



**EXECUTIVE OFFICE OF THE PRESIDENT**

**OFFICE OF MANAGEMENT AND BUDGET**

**MARCH 1996**

**(UPDATED THROUGH TRANSMITTAL  
MEMORANDUM 20, JUNE 1999)**

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## Introduction

The August 1983 Office of Management and Budget (OMB) Circular No. A-76, "*Performance of Commercial Activities*," establishes Federal policy for the performance of recurring commercial activities. This Supplement replaces the Handbook issued with the 1983 Circular and provides updated guidance and procedures for determining whether recurring commercial activities should be operated under contract with commercial sources, in-house using Government facilities and personnel, or through interservice support agreements (ISSAs). The Revised Supplemental Handbook is an integral part of the 1983 Circular.

As noted in the Vice President's Third Report of the National Performance Review, "*Common Sense Government: Works Better and Costs Less*," (September 1995), Americans want to "get their money's worth" and want a Government that is more businesslike and better managed. The reinvention of Government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including: the consolidation, restructuring or reengineering of activities, privatization options, make or buy decisions, the adoption of better business management practices, the development of joint ventures with the private sector, asset sales, the possible devolution of activities to State and local governments and the termination of obsolete services or programs. In the context of this larger reinvention effort, the scope of this Supplemental Handbook is limited to the conversion of recurring commercial activities to or from in-house, contract or ISSA performance. Circular A-76 is not designed to simply contract out. Rather, it is designed to: (1) balance the interests of the parties to a make or buy cost comparison, (2) provide a level playing field between public and private offerors to a competition, and (3) encourage competition and choice in the management and performance of commercial activities. It is designed to empower Federal managers to make sound and justifiable business decisions.

Reliable cost and performance information is crucial to the effective management of Government operations and to the conduct of competitions between public or private sector offerors. Unfortunately, this

information has not been generally available and has often been found to be unreliable. The Chief Financial Officers Act of 1990 (CFO Act) includes among the functions of chief financial officers "the development and reporting of cost information" and "the systematic measurement of performance." This includes performance by in-house, contract or ISSA resources. In July 1993, Congress passed the Government Performance and Results Act (GPRA), which mandates performance measurement by Federal agencies. The Statement of Federal Financial Accounting Concepts No. 1, "*Objectives of Federal Financial Reporting (1993)*," stated that one of the objectives of Federal financial reporting is to provide useful information to assist in assessing the budget integrity, operating performance, stewardship, and control of the Federal Government. In 1995, the Federal Accounting Standards Advisory Board (FASAB) recommended standards for managerial cost accounting, which were approved by the Director of OMB, the Secretary of the Treasury and the Comptroller General. These standards were issued as the Statement of Federal Accounting Standards No. 4, "*Managerial Cost Accounting Standards for the Federal Government*." This Supplement relies on the managerial cost accounting and performance standards established in support of the CFO Act, GPRA, and the Federal Accounting Standards, as they are developed and implemented. Cost and performance information developed for cost comparisons required by the Circular and this Supplement should be drawn from the data base established by these standards and adjusted as appropriate.

The Circular and this Supplement are not intended and should not be construed to create any right or benefit, substantive or procedural, enforceable at law by a party against the United States, its agencies, its officers or any person. It should not be construed to create any substantive or procedural basis on which to challenge any agency action or inaction, except as set forth in Part I, Chapter 3, Paragraph K, of this Supplement and as set forth in Appendix 2, Paragraph G, consistent with Section 3 of the Federal Activities Inventory Reform Act of 1998 (FAIR Act, P.L. 105-270).

This Supplement is divided into two parts (with a table of contents at the beginning of each Part) as follows:

**Part I    *Policy Implementation***

Sets forth the principles and procedures for implementing OMB Circular A-76.

**Part II    *Preparing the Cost Comparison Estimates***

Provides instructions for calculating the financial advantage to the Government of acquiring a product or service through in-house, contract or interservice support agreement resources.

**Appendices**

***Definition of Terms***

Defines terms within the context of OMB Circular A-76.

***Commercial Activities Inventory***

Provides information and reporting guidance.

***Useful Life and Disposal Values***

Provides useful expected life and disposal values for equipment.

***Tax Tables***

Provides Federal tax rate tables for use in A-76 cost comparisons by industry type.

***OFPP Policy Letter 92-1***

Provides guidance and criteria for determining whether activities may be considered inherently governmental and not subject to the requirements of the Circular or this Supplement.

***Aviation/Motor Vehicle***

Provides sector-specific alternatives to the cost comparison methodologies in Part II.

## **PART I**

# **POLICY IMPLEMENTATION**

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## Chapter 1—General Provisions

### A. General

This Part sets forth the principles and procedures for managing the Government's acquisition of recurring commercial support activities, implementing the "Federal Activities Inventory Reform Act of 1998" ("The FAIR Act"), P.L. 105-270, and Circular A-76. Exhibit 1 summarizes the conditions that permit conversion to or from in-house, contract or Inter-Service Support Agreement (ISSA) performance. The requirements of the FAIR Act apply to the following executive agencies: (1) an executive department named in 5 USC 101, (2) a military department named in 5 USC 102, and (3) an independent establishment as defined in 5 USC 104. The requirements of the FAIR Act do not apply to: (1) the General Accounting Office, (2) a Government corporation or a Government controlled corporation as defined in 5 USC 103, (3) a non-appropriated funds instrumentality if all of its employees are referred to in 5 USC 2105(c), or (4) Depot-level maintenance and repair of the Department of Defense as defined in 10 USC 2460.

### B. Inherently Governmental Activities

1. Inherently Governmental activities are not subject to the FAIR Act, Circular A-76 or this Supplemental Handbook. As a matter of policy, an inherently Governmental activity is one that is so intimately related to the exercise of the public interest as to mandate performance by Federal employees. The Office of Federal Procurement Policy (OFPP) Policy Letter 92-1, dated September 23, 1992 (*Federal Register*, September 30, 1992, page 45096), provides guidance on the identification of inherently Governmental activities (see Appendix 5). This guidance conforms to the definition provided at Section 5, paragraph 2, of the FAIR Act.

2. The decision that a particular function is inherently governmental or commercial rests on a number of factors, including: the level of Federal control required, the ministerial nature of the function, certain statutory provisions, and distinguishing between recurring operations and oversight. Statutory authority to perform a function is not, itself, sufficient to warrant continued in-house performance as an inherently governmental function. The full range of issues addressed by the OFPP Policy Letter 92-1 must be considered. As provided by the Policy Letter, OMB remains available to resolve agency concerns in this determination.

### C. Government Performance of Commercial Activities

Consistent with paragraph 8. of the Circular, cost comparisons are not required to convert the following activities to or from in-house, contract or ISSA (The application of these conditions should be reviewed by the official in paragraph 9.a. of the Circular, or designee, as a part of the annual inventory of commercial activities.):

1. *National Defense or Intelligence Security.*—Commercial activities may be performed by in-house, contract or ISSA, without cost comparison, when required to assure the national defense or national intelligence security. The Secretary of Defense, or designee, approves requests for conversions on the basis of the national defense. The Director of Central Intelligence, or designee, approves conversions on the basis of national security.

2. *Patient Care.*—As provided by paragraph 8.c. of the Circular, commercial activities at Government-owned hospitals or other health facilities may be performed by in-house, contract or ISSA, without cost comparison, when needed to maintain the quality of direct patient care.

3. *Core Capability.*—A minimum core capability of specialized, scientific or technical in-house or contract employees and related commercial workload, may be maintained, without cost comparison, to ensure that the Government has the necessary capabilities to fulfill its mission responsibilities or meet emergency requirements.

4. *Research and Development.*—As provided by paragraph 7.c.(7) of the Circular, research and development activities may be performed by in-house, contract or ISSA without cost comparison. Recurring and severable activities that are performed in support of direct research and development are subject to the cost comparison requirements of this Supplement.

5. *No Satisfactory Commercial Source Available.*—

a. If a commercial activity could be contracted, but there is no commercial source, the activity is to be operated using the Government's Most Efficient Organization (MEO).

b. Efforts to solicit commercial interest are to be documented, to include: (1) consideration of preferential and non-preferential procurement and (2) a determination that the solicitation did not limit commercial participation.

6. *Functions With 10 or Fewer FTE.*—Activities involving 10 or fewer FTE may be converted from contract

to in-house or ISSA, without cost comparison, if the contracting officer determines that performance is unsatisfactory or that fair and reasonable prices cannot be otherwise obtained.

**7. Meet Performance Standard.—**

a. Performance by in-house, contract or ISSA may be authorized if an agency demonstrates that performance meets or exceeds generally recognized industry performance and cost standards.

b. Competitions based upon output and cost performance measures must reflect the agency's fully allocated costs of performance and must be certified as being in full compliance with the Statement of Federal Accounting Standards No. 4, "Managerial Cost Accounting Standards for the Federal Government." The cost comparability procedures described in this Supplement, such as those related to fringe benefit factors, must also be considered in assessing the comparability of Government and private sector performance measures and costs. Adjustments to Government and private sector performance measures and costs may be required. Performance standards should be monitored in conjunction with the Chief Financial Officers Act (CFO Act) and the Government Performance Results Act of 1993 (GPRA).

c. A full description of the standards, performance measures, costs and adjustments made will be developed by the agency and made available to the public upon request. The use of selected standards, performance measures and adjustments are subject to the administrative appeal procedures provided at Part I, Chapter 3, paragraph K, of this Supplement.

8. *Lower Cost.*—In-house, contract or ISSA performance of a commercial activity may be warranted by the results of a cost comparison conducted in accordance with the procedures described in this Supplement.

9. *Temporary Authorizations for In-House Performance.*—If a contractor defaults or is otherwise terminated, agencies should seek interim contract support. If interim contract performance is not feasible, in-house or ISSA performance of a "contracted" activity may be authorized, on a temporary and emergency basis. As soon as possible, but not later than at the end of the next contract option period, a replacement contract should be awarded or a new requirements cost comparison completed to justify permanent conversion to in-house performance.

**D. Contract Performance of Commercial Activities**

As a matter of policy, the Government shall acquire non-recurring commercial activities through contracts with the private sector. The acquisition of a recurring

commercial activity by contract may be warranted under the following conditions (The application of these conditions should be reviewed by the official in paragraph 9.a. of the Circular, or designee.):

1. *Contracted Activities.*—An activity obtained through a competitively awarded contract will continue to be obtained by contract as long as the quality of service is acceptable and competitive prices are fair and reasonable. If the Government believes that quality is unacceptable or prices appear unreasonable, a cost comparison is conducted to justify conversion to in-house or ISSA performance.

2. *New Requirements.*—A new requirement will be obtained by a competitively awarded contract. If there is reason to believe that contract service quality or prices may be unreasonable, a cost comparison is conducted to justify conversion to in-house or ISSA performance.

3. *Severable Expansions.*—Severable expansions of existing in-house, contracted or ISSA performed activities are obtained by a competitively awarded contract. If the expansion is not severable, a review of the entire activity, including the proposed expansion, is conducted for potential contract performance. If there is reason to believe that contract service quality or prices may be unreasonable, a cost comparison is conducted to justify conversion to in-house or ISSA performance.

4. *Interservice Support Agreements (ISSA).*—

a. Commercial activities may be performed by in-house or contract resources or through ISSAs as provided by law and Part I, Chapter 2 of this Supplement.

b. In responding to interservice support requests, potential agency service providers will certify that their reimbursable cost estimates reflect the full competitive costs to the Government as defined in this Supplement.

5. *Activities With 10 or Fewer FTE.*—Commercial activities involving 10 or fewer FTE may be performed by in-house, contract or ISSA performance, without cost comparison, if the contracting officer determines that offerors will provide required levels of service quality at fair and reasonable prices.

6. *Activities of 11 or More FTE.*—Commercial activities may be converted to contract or ISSA, without cost comparison, if fair and reasonable prices can be obtained through competitive award and all directly affected Federal employees serving on permanent appointments are reassigned to other comparable Federal positions for which they are qualified. In no case, shall any commercial activity be modified,

(March 1996)

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reorganized, divided or in any way changed for the purpose of circumventing the requirements of this paragraph or this Supplement.

**7. Activities Performed by the Military.—**

a. The official in paragraph 9.a. of the Circular, or designee, may authorize the direct conversion of activities performed by uniformed military service personnel to contract performance, without cost comparison, if the contracting officer determines that fair and reasonable prices can be obtained from qualified commercial sources.

b. If a cost comparison is conducted or otherwise required to convert to ISSA performance, the uniformed military positions included in the Government's in-house cost estimate are cost at the standard composite rate for uniformed personnel published by the DOD or other applicable agency Comptroller. The Comptroller will also establish the number of productive hours for uniformed personnel (see Part II, Chapter 2, paragraph B, "Personnel").

c. Civilian personnel will be cost as provided by this Supplement. While the uniformed positions may or may not be converted to civilian positions as a part of this process, the conversion of in-house civilian positions to uniformed positions is not authorized.

**8. Preferential Procurement Programs.—**A commercial activity of any size that is performed by Federal employees may be converted to contract performance, without cost comparison—even if it results in adverse employee actions, if the contract is awarded to a preferential procurement source at a fair market price. At the agency's discretion, a cost comparison may be conducted.

**9. Lower Cost.—**Contract or ISSA performance of a recurring commercial activity may be authorized by the results of a cost comparison conducted in accordance with the procedures described in this Supplement.

**E. Agency Cost Comparison Waivers**

1. The official in paragraph 9.a. of the Circular may authorize cost comparison waivers and direct conversions to or from in-house, contract or ISSA performance. ISSA cost comparison waivers may be granted by the requesting agency only.

2. Within the Department of Defense, the authority to issue general cost comparison waivers may be delegated to the Service Assistant Secretary or Departmental Agency Head, without further delegation.

3. Waivers shall be granted only as follows:

a. A written cost comparison waiver will be prepared and signed by the authorized waiver official.

The waiver will be accompanied by a detailed determination that the conversion meets the following requirements:

(1) The conversion will result in a significant financial or service quality improvement and a finding that the conversion will not serve to reduce significantly the level or quality of competition in the future award or performance of work; or

(2) The waiver will establish why in-house or contract offers have no reasonable expectation of winning a competition conducted under the cost comparison procedures of this Supplement.

4. These general-function A-76 cost comparison waivers are subject to the administrative appeal procedures provided at Part I, Chapter 3, paragraph K, of this Supplement. While the justification for a waiver is subject to appeal, a decision not to issue a waiver is not subject to appeal.

5. Federal employees adversely affected by a decision to waive a cost comparison shall be afforded the same personnel considerations provided at Paragraph H of this Chapter.

6. Cost comparison waivers are granted to Department of Defense and other Federal installations scheduled for closure or in cases where functions are designated for termination on specified dates.

**F. Commercial Activities Inventory**

As required by the FAIR Act, Circular A-76 and this Supplemental Handbook, each agency will maintain a detailed inventory of all in-house commercial activities performed by its Government employees. This inventory, as described at Appendix 2 of this Supplement, and any supplemental information requested by OMB, will be submitted not later than June 30 of each year. Agencies should, as appropriate, permit employee involvement in the development of this Commercial Activities Inventory.

**G. Review of Documents**

**1. Access to Supporting Documentation.—**

a. At the earliest possible stages of development, consistent with procurement and conflict of interest requirements, affected parties will have the opportunity to fully participate in the development of supporting documents and proposals, including the development of performance standards, performance work statements, management plans, and the development of in-house and contract cost estimates.

b. Upon issuance, a solicitation used in the conduct of a cost comparison will be made available to directly affected Federal employees or their representatives for comment. The employees or their represent-

atives will be given sufficient time to review the document and submit comments before final receipt of offers from the private sector. Private sector offerors shall comment as provided by the Federal Acquisition Regulations (FAR).

2. *Appeals of Agency Decisions.*—As provided by the Circular and this Supplement at Part I, Chapter 3, paragraph K, agencies shall make all relevant documents available for review as a part of the administrative appeal process. The detailed documentation shall include, at a minimum, the in-house cost estimate, with detailed supporting data, the completed cost comparison form itself, and the management plan.

#### H. Personnel Considerations

1. Adversely affected Federal employees are employees identified for release from their competitive level by an agency, in accordance with 5 CFR Part 351 and Chapter 35 of Title 5, United States Code, as a direct result of a decision to convert to contract, ISSA performance or the agency's Most Efficient Organization (MEO).

2. Federal employees and existing Federal support contract employees adversely affected by a decision to convert to contract or ISSA performance have the Right-of-First-Refusal for jobs for which they are qualified that are created by the award of the conversion.

a. A standard clause is included in direct conversion and A-76 cost comparison solicitations notifying potential contractors of this requirement (see FAR 52.207-3). The Right-of-First-Refusal is afforded to all Federal employees adversely affected by the decision to convert to contract performance.

b. Executive Order 12933, "Non-Displacement of Qualified Workers Under Certain Contracts," dated October 20, 1994, also provides the Right-of-First-Refusal to contract employees (see FAR 7.305 (c)). As a matter of policy, the Right-of-First-Refusal offered at FAR 52.207-3 is superior.

c. Personnel officers should work with the contracting officer and employees to implement these provisions.

3. Agencies should exert maximum efforts to find available positions for Federal employees adversely affected by conversion decisions, including:

a. giving priority consideration for available positions within the agency;

b. establishing a reemployment priority list and an effective placement program;

c. paying reasonable costs for training and relocation that contribute directly to placement, and

d. coordinating with the Office of Personnel Management (OPM) to ensure employees have access to placement programs, including the OPM-operated Displaced Employee Program (DEP) and the Inter-agency Placement Assistance Program (IPAP).

4. Agencies should notify employees affected as soon as possible of an impending cost comparison and keep them informed of its progress at every major milestone of the process.

#### I. Relationship to the Budget

1. Workload and resulting cost estimates will be consistent with the President's Budget covering the performance period. New or expanded work requirements, ISSAs and conversions of existing work to or from in-house or contract performance should be identified.

2. Agencies should include in each annual budget submission the savings from changes in the method of obtaining commercial activities. These savings will be submitted in accordance with the instructions of OMB Circular No. A-11, "Preparation and Submission of Budget Estimates." Changes in the method of performance should be timed to conform with the budget process.

3. Agencies may request OMB approval to retain or redistribute budget savings to other critical missions.

## EXHIBIT 1

### CONDITIONS PERMITTING GOVERNMENT PERFORMANCE OF COMMERCIAL ACTIVITIES

1. **National Defense or Intelligence Security.** The Secretary of Defense, or designee, approves national defense justifications. The Director of Central Intelligence, or designee, approves national security justifications.
2. **Patient Care.** Commercial activities at Government-owned hospitals or other health facilities may be performed by in-house, ISSA or contract employees when needed to maintain the quality of direct patient care.
3. **Core Capability.** A core capability of in-house and contract resources may be warranted for certain functional areas.
4. **Research and Development.** Research and development activities may be converted to or from in-house, contract or ISSA without cost comparison. Severable support activities are subject to the cost comparison provisions of this Supplement.
5. **No Satisfactory Commercial Source Available.** Agencies will solicit private sector interest and certify that the solicitation did not restrict or otherwise limit competition.
6. **Functions With 10 or Fewer FTE.** May be converted to or from in-house, contract or ISSA, without a cost comparison, if the contracting officer determines that reasonable prices cannot otherwise be obtained.
7. **Meet Performance Standard.** Agencies may demonstrate that the activity meets or exceeds generally recognized industry cost and performance standards, after all adjustments required by this Supplement.
8. **Lower Cost.** Results of a cost comparison demonstrate that in-house performance is less costly.
9. **Temporary Authorization.** Temporary emergency performance may be warranted not to exceed the next full contract option year.

### CONDITIONS PERMITTING CONTRACT PERFORMANCE OF COMMERCIAL ACTIVITIES

1. **Contracted Activities.** Should be obtained by contract, unless a cost comparison demonstrates that in-house or ISSA performance is more cost effective.
2. **New Requirement.** Should be obtained by contract, unless contract quality or price appear unreasonable. A cost comparison is performed to convert the activity to in-house or ISSA performance.
3. **Severable Expansions.** Same as above.
4. **ISSAs.** Commercial activities should not be performed through new or expanded ISSAs, except as provided by law or this Supplement.
5. **Activities With 10 or Fewer FTE.** May be converted to or from in-house, contract or ISSA, without a cost comparison.
6. **Activities with 11 or More FTE.** May be converted to contract or ISSA, without cost comparison, if fair and reasonable contract prices can be obtained by competitive award *and* all directly affected Federal employees on permanent appointments can be reassigned to other comparable Federal positions.
7. **Activities Performed by the Military.** Activities performed by military (uniformed) personnel may be converted to contract without cost comparison. Military positions included in cost comparisons are cost at the composite rates provided by the DOD or other appropriate agency Comptroller.
8. **Preferential Procurement Programs.** Contract performance may be granted, without cost comparison, if the contract is awarded to a preferential procurement program.
9. **Lower Cost.** Conversion to contract is required if a cost comparison indicates that contract performance is the lower cost alternative.

## Chapter 2—Interservice Support Agreements (ISSA)

### A. General

1. In accordance with the provisions of the Federal Property and Administrative Services Act of 1949, the Economy Act of 1932 (31 USC 1535), and the Government Management Reform Act of 1994 (103 USC 356), excess property and common administrative services available from other Federal departments or agencies may be used, *unless* the needed product or service can be obtained more economically through agency or private sector resources. The cost principles and competition procedures established by this Supplement are to be used to determine when services should be performed by in-house, contract or interservice support agreement (ISSA) resources.

2. Federal agencies shall not provide commercial activities to the private sector. OMB approval or specific statutory authority is required to deviate from this policy.

3. In accordance with OMB Circular A-97, "*Rules and Regulations Permitting Federal Agencies to Provide Specialized or Technical Services to State and Local Units of Government*," Federal agencies must conduct cost comparisons prior to offering to provide or receive commercial services to or from State or local government agencies. This requirement does not, however, apply to exceptional emergency circumstances such as disaster relief requirements.

4. In accordance with OMB Circular A-126, "*Improving the Management and Use of Government Aircraft*," dated May 22, 1992, agencies will conduct approved cost comparisons before retaining, purchasing or otherwise providing, directly or through ISSAs, Federal aircraft or aviation services (see Appendix 6).

5. In recognition of Government-wide downsizing and reinvention efforts, the cost comparison requirements of this Supplemental Handbook shall not apply to any ISSA consolidations, where the transfer of work is accomplished prior to October 1, 1997, unless that consolidation includes the conversion of work to or from contract performance and such conversion is not otherwise authorized by this Supplemental Handbook.

a. Effective October 1, 1997, the cost comparison requirements of this Supplemental Handbook will not apply to existing or renewed ISSAs or to the consolidation of commercial or other services within a Department or agency, unless that consolidation includes the conversion of work to or from in-house or contract performance. New, expanded or transferred work requirements will be authorized for per-

formance by an ISSA only as provided by the cost comparison or other provisions of this Supplemental Handbook.

6. The cost comparison provisions of this Chapter do not apply to the performance of inherently governmental functions, such as reimbursable procurement or contract administration services.

### B. Specific

1. The prospective providing agency will furnish the requesting agency a firm price or reimbursable rate for the requested new or expanded product or service. The prospective provider will also issue a certification that its price or reimbursable rate is calculated in accordance with Part II of this Supplement. This cost estimate will then be compared by the requesting agency to an in-house and/or a commercial offer, also calculated or adjusted in accordance with this Supplement. A contract shall be awarded by the requesting agency, if the commercial offer is more economical.

a. If the prospective provider is responding to a formal solicitation issued by the requesting agency, the prospective provider shall submit to the requesting agency a synopsis, management plan and Government cost estimate developed in accordance with this Supplement. A complete response, as required by the Federal Acquisition Regulations (FAR), is not required.

(1) Under no condition, shall the requesting agency cancel or otherwise delay bid opening or contract award in order to permit an agency to submit an ISSA price or reimbursable rate.

(2) The requesting agency may accept or reject the prospective provider's offer as technically qualified or unqualified as it deems appropriate and without appeal. Prospective providers who submit a technically acceptable offer shall compete with private sector and other in-house offers.

b. Agencies that wish to provide a commercial activity to another Department or agency may petition the agency to conduct a cost comparison.

c. At the sole discretion of the requesting agency, the prospective provider may submit performance standard data, as provided by Chapter 1, paragraph C.7. of this Part. The prospective provider shall certify that all necessary adjustments to its performance measures and cost standards have been made. The requesting agency shall review the documentation for these adjustments and make similar adjustments to

the private and other in-house offers based upon the submission of performance measures.

2. Competitions between a requesting agency, private sector offeror and a potential ISSA provider may require special performance and price adjustments to ensure that all competitors are treated equitably. These performance and price adjustments, include:

- Contract Price
- Contract Administration Costs
- Additional Costs
- One-time Conversion Costs
- Gain/Loss on Disposal/Transfer of Assets
- Federal Income Taxes
- Other Adjustment Costs
- Minimum Differential Costs

3. Proposals to obtain new or expanded products or services from another Government agency or private sector offeror, including ISSA proposals, will be published in the *Commerce Business Daily*.

4. An agency that is currently obtaining a commercial support service from another Department or agency may, with proper notification, terminate that relationship and convert directly to contract performance without cost comparison. If, however, the agency wishes to perform that work directly with in-house resources, it will need to justify that decision through a cost comparison for a "new requirement." Again, this provision does not apply to the performance of inherently governmental activities.

5. Agencies will not retain, create or expand capacity for the purpose of providing new or expanded

levels of interservice support services, unless justified by the cost comparison requirements of this Supplement.

a. Once an interservice support provider has competed its entire interservice support workload with the private sector, that provider may provide new or expanded interservice support work—of the same type—to other agencies, without further review or cost comparison on its or the requesting agency's part. This ability to offer services, without cost comparison, will continue until the providing agency has increased its capability and total workload by the lesser of (1) the expansion requirements of this Supplement or (2) more than 65 FTE are added to the in-house capability, at which time another full review or individual cost comparisons are required.

b. Paragraph 5.a. notwithstanding, if a new or expanded ISSA results in a general conversion of work to or from in-house or contract performance and a cost comparison has not previously justified the provider's method of performance, a cost comparison is required.

6. Cost comparisons conducted to justify ISSAs are subject to independent review and appeal. Prior to bid opening, the requesting agency's Independent Review Officer shall review all Government bids for compliance with the requirements of this Supplement. Appeals shall be conducted in accordance with Chapter 3, paragraph K, of this Part.

## Chapter 3—Cost Comparisons

### A. General

1. Except as provided in Chapter 1 of this Part, agencies will conduct cost comparisons when activities do not meet established performance standards, when agencies believe fair and reasonable prices cannot be obtained from qualified commercial sources, or as otherwise provided to permit the conversion of work to or from in-house, contract or interservice support agreement (ISSA) performance. Detailed guidance on the conduct of cost comparisons is contained in Part II of this Supplement.

2. In consolidating activities for cost comparison, agencies should take existing industry structures, contract administration and other management considerations into account.

3. In general, the cost comparison process consists of six major components. They are: (1) the development of a Performance Work Statement (PWS) and Quality Assurance Surveillance Plan (QASP); (2) the performance of a management study to determine the Government's Most Efficient Organization (MEO); (3) the development of an in-house Government cost estimate; (4) issuance of the Request for Proposal (RFP) or Invitation for Bid (IFB); (5) the comparison of the in-house bid against a proposed contract or ISSA price, and (6) the Administrative Appeal Process, which is designed to assure that all costs entered on the Cost Comparison Form (CCF) are fair, accurate and calculated in accordance with Part II of this Supplement.

4. Cost comparisons should be completed within eighteen months for a single activity (or thirty-six months for multiple activities) from the cost comparison start date, i.e., public or union notification and designation of the study team. Agencies are to provide an annual report to OMB on all cost comparisons that exceed these time frames, including a description of the problems encountered, remedial actions, status and expected completion date.

### B. The Cost Comparison Study Team

1. Generally, a central or field agency study team should be formed. Over time, the team may include individuals with expertise in management analysis, position classification, work measurement, value engineering (see OMB Circular A-131), industrial engineering, cost analysis, procurement and the technical aspects of the activity under study. The team should document mission requirements and seek new and

innovative ways to provide the required products or services.

2. Agencies are encouraged to seek training on the policies and procedures of Circular A-76 and this Supplement, and to ensure that the skills necessary to prepare the Performance Work Statement, in-house management plan and cost estimate are available. Joint training for employees and their representatives is encouraged.

3. Procurement restrictions prohibit Federal procurement officials from subsequently working for a contractor on a procurement in which the procurement official was involved. "Procurement official" in this sense includes personnel in the commercial activity who are directly and substantially involved in preparing or approving the PWS, management plan, the in-house cost estimate, or supporting the source selection evaluation process. (See FAR 3.104-4(h)(3) and 41 USC 423.)

a. Employees who participate or provide data to support the development of the various study elements, but do not review, approve or have direct knowledge of the final performance work statement, performance standards, MEO, in-house or contract cost estimates are not considered "procurement officials" and are not affected by this restriction.

b. The participation of functional experts is essential to the quality of the cost comparison. However, when participation on the study team could adversely affect their rights under the Right-of-First-Refusal or the opportunity for future employment with the contractor, employees should be given the option to decline participation.

c. At a minimum, certifying officials for the PWS and Management Plan, the Independent Review Officer(s), those who sign the cost comparison form and the Administrative Appeal Authority are considered procurement officials.

### C. Performance Work Statements

1. Performance Work Statements (PWS) should be developed for all activities being resolicited for contract or scheduled for direct conversion to or from in-house, contract or ISSA performance.

2. The PWS defines what is being requested, the performance standards and measures, and timeframes required. It provides the technical performance sections of the Request for Proposals (RFP) or Invitation for Bid (IFB) issued by the contracting officer.

(March 1996)

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3. In the development of the PWS, agencies should refer to the Office of Federal Procurement Policy's (OFPP) Policy Letter 91-2, "Service Contracting," dated April 9, 1991; OFPP Policy Letter 93-1, "Management Oversight of Service Contracting," dated May 18, 1994, and the OFPP Best Practices Guide to Performance-Based Service Contracting.

4. Special care should be taken when developing the PWS to ensure that it does not limit service options, arbitrarily increase risk, reduce competition, unnecessarily violate industry service or service grouping norms or omit statutory or regulatory requirements without full justification. The PWS should be performance-oriented, specifying what outputs or measures are desired and limiting directions as to how the results are achieved. Agencies should not consider a PWS that limits the options available for providing the required product or service, or otherwise unnecessarily restricts private sector participation as being in compliance with Circular A-76 or this Supplement.

#### **D. Quality Assurance Surveillance Plans**

1. The Quality Assurance Surveillance Plan (QASP) describes the methods of inspection to be used, the reports required and the resources to be employed with estimated work-hours. Although the QASP accompanies the PWS to the Independent Review Officer (IRO) for a cost comparison, it need not be included as a part of the solicitation or provided to private sector offerors. In-house, contract and ISSA offerors should develop their offers based upon the requirements of the PWS alone. The QASP process is supplemented with periodic Post-MEO Performance Reviews.

#### **E. Management Plans**

1. The Management Plan describes the Government's Most Efficient Organization (MEO) and is the basis of the Government's in-house cost estimates. The Management Plan, which must reflect the scope of the Performance Work Statement, should identify the organizational structures, staffing and operating procedures, equipment, transition and inspection plans necessary to ensure that the in-house activity is performed in an efficient and cost effective manner.

2. Agencies may consider existing management reinvention, consolidation, re-engineering, personnel classification, market and other analyses in the identification and development of the MEO.

3. The Management Plan is certified as reflecting the Government's Most Efficient Organization

(MEO). The certifying official may be any technically competent individual: (a) organizationally independent of the function under study or (b) at least two levels above the most senior official included in the in-house cost estimate. The certifying official must also be able to commit to the provision of necessary resources to perform the activity. Such certification is made before the review of bids or proposals.

4. The Management Plan will document the assumptions used in the development of the MEO and in-house cost estimate, including:

a. *Summary.* An overall comparison of the current organization with the MEO and a review of any special initiatives or assumptions, including equipment or productivity changes.

b. *The Quality Assurance Surveillance Plan (QASP).* A description of the Government's in-house Quality Assurance Surveillance Plan and how it will differ, including resources, if services are provided by ISSA or contract, and why.

c. *Assets.* When existing assets used by the Government's MEO are not provided to the ISSA or contractor for use, an analysis of the benefits to the Government may be warranted.

d. *Transition Plan.* A plan for the transition to or from current organizational structure to MEO, contract or ISSA performance—designed to minimize disruption, adverse impacts, capitalization and start-up requirements.

e. *In-house Cost Estimate.* A description of all costs associated with the performance of the MEO, calculated in accordance with Part II of this Supplement.

#### **F. Safeguarding the MEO**

1. The Management Plan and the MEO are considered procurement sensitive documents until a tentative decision is reached, e.g., at bid opening and completion of the cost comparison form.

2. The Management Plan, MEO and in-house cost estimate are delivered as sealed documents to the contracting officer prior to the due date for the receipt of bids or technical proposals. The period available to deliver contract offers will be extended until the MEO and the in-house cost estimates are sealed. No private sector offer is opened or otherwise reviewed prior to the sealing of the Government's in-house cost estimate.

#### **G. Solicitations**

1. The contracting officer reviews the PWS to ensure that it is adequate and appropriate to serve as

a basis for award. The Contracting Officer issues a solicitation based on the PWS.

2. The contracting officer, when contracting by sealed bid, inserts in cost comparison solicitations the provision at FAR 52.207-1, Notice of Cost Comparison (Sealed Bid).

3. The contracting officer, when contracting by competitive negotiation or source selection, inserts in cost comparison solicitations the provision at FAR 52.207-2, Notice of Cost Comparison (Negotiated).

4. The contracting officer inserts the clauses at FAR 52.207-3 and 7.305, the Right-of-First-Refusal of Employment, in all direct conversion and cost comparison solicitations.

#### **H. Methods of Procurement**

1. All competitive methods of Federal procurement provided by the FAR are appropriate for cost comparison under the Circular and this Supplement. This includes: sealed bid, two-step, source selection and other competitive qualifications-based or negotiated procurement techniques.

2. In selecting the method of procurement and contract type, the contracting officer analyzes the PWS and applies the guidance contained in OFPP Policy Letter 91-2 and FAR Part 16.

3. Source Selection or negotiated procurement techniques may be used for some A-76 Cost Comparisons. To ensure equity in the cost comparison process, the following guidelines are provided:

a. In addition to the PWS, Management Plan and in-house cost estimate, the Government, like the private sector offerors, shall submit the Technical Performance Plan required by the solicitation to the A-76 Independent Review Officer (IRO). The Technical Performance Plan reflects the MEO and is sealed prior to the consideration of any part of any contract offer.

b. As required by the FAR, the Government should establish a Source Selection Authority, including assurances that there are no potential conflicts of interest in the membership of the Authority.

c. The Authority reviews contract and ISSA offers and identifies that offer which represents the "best overall value to the Government." This contract offer competes with the Government's in-house cost estimate.

d. With the selection of the competitive offer, the contracting officer submits to the Authority the Government's in-house Management Plan, which must comply with the technical proposal requirements of the solicitation. The Authority evaluates the in-house offer and assesses whether or not the same level of

performance and performance quality will be achieved. The Authority should not review or have access to the in-house cost estimate.

e. The Government makes all changes necessary to meet the performance standards accepted by the Authority. Revised cost estimates are resubmitted to the IRO for acceptance. This will assure that the Government's in-house cost estimate is based upon the same scope of work and performance levels as the best value contract offer.

#### **I. The Independent Review**

1. The Government's cost estimates are certified in writing by the agency's A-76 Independent Review Officer (IRO), or designee, as being in full compliance with the procedures and requirements described in this Supplement. The IRO should be a qualified person from an impartial activity that is organizationally independent of the commercial activity being studied and the activity preparing the cost comparison.

2. The PWS, Management Plan, QASP and all Government developed cost estimates, with supporting documentation, are forwarded to the agency IRO, or designee, for review. This is done prior to submission of the Cost Comparison Form (CCF) and supporting data to the contracting officer.

3. The IRO acts as an independent authority to:

a. ensure that the data contained in the Management Plan reasonably establish the Government's ability to perform the PWS within the resources provided by the MEO, and

b. ensure that all costs entered on the CCF are fully justified and calculated in accordance with the procedures described in Part II of this Supplement.

#### **J. Evaluation of Bids and Tentative Decisions**

1. For sealed bid procurements, the contracting officer opens the bids, including the Government's in-house cost estimate, and enters the price of the apparent low offeror on the Cost Comparison Form (CCF). After all necessary adjustments are made and the CCF is completed, the contracting officer announces the tentative decision, subject to evaluation of bids for responsiveness, responsibility and resolution of possible administrative appeals. The appeal period begins when access to the completed CCF, and all supporting documentation, is provided to affected parties for review, usually the day of bid opening.

2. If, as a result of an appeal or other problem, the selected competitive offeror is other than the previously announced apparent low bidder, the CCF

is revised. All affected parties should be notified of any such revision.

3. For a negotiated or best value procurement, after selection of the private sector's most advantageous proposal, and all necessary adjustments have been made to ensure that the Government's in-house cost estimate and the other offers are based upon the same scope of work and performance standards, the contracting officer opens the Government's in-house cost estimate, and completes the CCF.

4. If, after contract start, the cost comparison "winner" is found to be unresponsive or otherwise unable to perform, the Government should seek a reaffirmation of bids received from the in-house, private sector and ISSA, as appropriate, to the cost comparison solicitation. Adjustments, limited to time delays or inflation, should be accommodated for all offerors. The CCF is then recalculated and award made to the next lowest bidder.

#### **K. Appeals of Tentative Waiver and Cost Comparison Decisions**

1. Following a tentative waiver or A-76 cost comparison decision, the A-76 Administrative Appeals process is invoked. To be eligible for review under the A-76 Administrative Appeals process, appeals must:

a. Be submitted by an eligible appellant.

b. In the case of a waiver, be received by the official in paragraph 9.a. of the Circular, or designee. In the case of a tentative cost comparison decision, be received by the contracting officer. In either case, the appeal must be received in writing and within 20 calendar days after the date that all supporting documentation is made publicly available. The agency may extend the appeal period to a maximum of 30 days if the cost comparison is particularly complex.

c. Address specific questions regarding an agency's compliance with the requirements and procedures of this Circular, factual questions regarding agency justifications to waive a cost comparison, or address specific questions regarding the costs entered by the Government on the applicable Cost Comparison Form and set forth the rationale for questioning those items.

d. Identify specific instances of agency denials of information not otherwise protected by law or regulation.

e. Demonstrate that the items appealed, individually or in aggregate, would reverse the tentative decision.

2. An eligible appellant is defined as:

a. Federal employees (or their representatives) and existing Federal contractors affected by a tentative decision to waive a cost comparison;

b. Federal employees (or their representatives) and contractors that have submitted formal bids or offers who would be affected by a tentative decision to convert to or from in-house, contract or ISSA performance as a result of a cost comparison; or

c. agencies that have submitted formal offers to compete for the right to provide services through ISSAs.

3. With receipt of an eligible appeal, the official designated in paragraph 9.a. of the Circular, or designee, assigns an official(s) to serve as the A-76 Administrative Appeal Authority for that appeal. The individual(s) selected must be: (a) two levels above the official who signed the waiver, in the case of a cost comparison waiver authorized under Chapter 1, paragraph E, of this Part; or (b) independent of the activity under review or at least two organizational levels above the official who certified the Government's Management Plan and MEO, in the case of a tentative cost comparison appeal.

4. The Appeal Authority ensures that the cost items challenged in the appeal are properly accounted for in accordance with the procedures of Part II of this Supplement. The Authority also ensures that all participants to the cost comparison process have appropriate access to the decision process.

5. If significant problems with the waiver justification or cost comparison estimates are found, such that the tentative decision may be unsupported or is in error, the Appeal Authority corrects the error and cost comparison, if applicable, and the agency proceeds according to the amended decision. The Authority will not review any item not formally challenged by an eligible appellant.

6. Agency A-76 Administrative Appeal procedures do not apply to questions concerning:

a. the selection of one contract offeror or another for competition with the in-house cost estimate;

b. award to one contractor in preference to another;

c. Government management decisions involving the Government's certified in-house MEO, and

d. the policies or procedures contained in the Circular and this Supplement.

7. The procedure does not authorize an appeal outside the agency or judicial review, nor does it authorize sequential appeals. The appeal process provides reasonable assurances that decisions to waive the cost comparison requirements of this Supplement

are properly reviewed and that the cost comparison requirements of this Supplement are properly adhered to, when applicable. Therefore, all directly affected parties are expected to submit their appeals within the initial appeal period.

8. The appeals procedure should provide for a final decision within 30 days of receipt of the appeal by the Appeal Authority.

#### **L. Post-MEO Performance Review**

1. When services are performed in-house as a result of a cost comparison, including those involving an ISSA, a formal review and inspection of the Most Efficient Organization (MEO) should be conducted. Typically, this review should be conducted following the end of the first full year of performance.

2. The Post-MEO Performance Review confirms that the MEO has been implemented in accordance with the Transition Plan, establishes the MEO's ability to perform the services of the PWS and confirms that actual costs are within the estimates contained in the in-house estimate. Adjustments may be made for formal mission or scope of work changes.

3. Post-MEO Reviews will be conducted at the direction of the official in paragraph 9.a. of the Circular, or designee, but must be independent of the most senior official included in the Government's in-house or ISSA cost estimate. Post-MEO Performance Reviews will be conducted on not less than 20 percent of the functions performed by the Government as a result of a cost comparison.

4. MEO implementation may be measured in terms of the FTE, grade structure and the contract support included in the Transition and Management Plan.

5. MEO performance may be measured in terms of workload, responsiveness and quality of work. Spe-

cial inspections and a review of the activity's implementation of the Quality Assurance Surveillance Plan may be necessary.

6. Cost conformance may be determined by an analysis of actual labor and material costs against the Personnel, Material, and Other Specifically Attributable costs on the final CCF. Care should be taken to assure that adjustments are made for retained or saved pay and for fringe benefit factors when using actual cost records.

7. Minor cost or performance deficiencies may be corrected to maintain the integrity of the cost comparison process. A period of time consistent with that given to a contractor may be given to the in-house or ISSA activity to correct any deficiencies found. Failure to correct deficiencies that would individually or in aggregate invalidate the original cost comparison, or any finding of a significant deviation from the requirements of the PWS, shall result in the following:

As with a contract default, if an in-house or ISSA failure to perform is identified, including failure to implement the MEO as provided by the Transition Plan, the contracting officer will award the work to next lowest offerer who participated in the cost comparison, if feasible. If award to the next lowest offeror is not feasible the contracting officer will immediately resolicit to conduct a revised and updated cost comparison.

8. An annual list of Post-MEO Performance Review certifications will be made available to the public upon request. This list will identify the total number of cost comparisons completed since the issuance of this Revised Supplemental Handbook and the number of Post-MEO Performance Reviews completed.

## **PART II**

# **PREPARING THE COST COMPARISON ESTIMATES**

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## Chapter 1—Implementation Instructions

### A. General

1. Part II provides generic and streamlined cost comparison guidance to comply with the provisions of the FAIR Act and Circular A-76. This includes guidance for developing in-house costs based upon the Government's Most Efficient Organization (MEO) and other adjustments to the contract and inter-service support agreement (ISSA) price. It also sets out the principles for development of cost-based performance standards or other measures that are comparable to those used by commercial sources. Appendices 6 and 7 provide sector-specific cost comparison guidance.

2. The guidance provided by this Part relies on the managerial cost accounting and performance standards established in support of the CFO Act, GPRA and Federal Accounting Standards. Cost and performance information developed for competitions subject to the Circular and this Supplement should be drawn from the data base established by these standards and adjusted as appropriate. This guidance is to be used by Federal agencies to ensure that cost comparisons are fair and reasonable.

3. A cost comparison between in-house, contract or ISSA performance seems straight-forward, but, in fact, is complicated by the very different ways Government agencies and commercial sources account for cost. For example, the Government buys capital equipment and may recognize the entire expense when payment is made. The commercial sector may borrow funds and recognize the expense of capital equipment as it is used. All costs incurred by commercial sources are ultimately charged to a "customer," whereas agency costs may be met by several different appropriations accounts, revolving funds or mixes thereof. Insurance is a real cost of doing business in the commercial sector, while the Federal Government is a "self-insured entity." Taxes are paid by most commercial sources and received and used by the public sector. Assets are purchased from owners equity in the commercial sector, yet they are purchased by the taxpayer in the public sector. The

Government may incur employee retained pay or save pay as a way of mitigating the adverse impacts of a management decision, without assessing these costs to the activity. The commercial sector passes these types of costs on to the customer. These and other differences necessitate cost comparison requirements that equalize the systems to reflect the total alternative costs to the Government and the taxpayer. Such costs may or may not be fully reflected by agency accounts.

4. The procedures set forth in this Part recognize the absence of a uniform accounting system throughout the Federal Government and are intended to establish a practical level of consistency to assure that all substantive factors are considered.

### B. Organization

1. Part II is divided into five chapters.

2. Chapter 2 provides the generic principles and procedures for developing the cost of in-house performance to the Government. The principles and procedures of Chapter 2 represent a competitive cost comparison.

3. Chapter 3 provides the generic principles and procedures for developing the cost of contract or ISSA performance to the Government. The principles and procedures of Chapter 3 represent a competitive cost comparison.

4. Chapter 4 provides procedures for computing the minimum conversion differential, calculating the financial advantages to the Government associated with Government or contract performance and the cost comparison decision.

5. Chapter 5 provides an alternative cost comparison methodology for activities involving 65 in-house FTE or less at the time of study announcement. While the principles and procedures of Chapter 5 represent a competitive cost comparison, this non-mandatory alternative approach is provided to minimize the administrative costs associated with cost comparisons, ensure timely completion and preserve the equity and cost comparability requirements of this Supplement.

## Chapter 2—Developing the Cost of Government Performance

### A. General

#### 1. Overview.—

a. This Chapter provides the policies and procedures that will be used when the Government determines that a cost comparison between in-house (agency), contract or interservice support agreement (ISSA) performance is warranted.

b. The procedures of Part I of this Supplement regarding cost comparison waivers, the certification of the Government's MEO, review by an Independent Review Officer and the Administrative Appeals process apply. Cost comparisons will be based upon the same scope of work and performance requirements contained in the Performance Work Statement (PWS).

c. Cost comparisons are conducted in accordance with this guidance, modified to the extent applicable by Chapter 5 of this Part. The procedures differ for the conversion of work from contract or ISSA to in-house performance, however, in four basic areas: (1) the identification of *new* or *increased* in-house costs, (2) one-time conversion costs and (3) the calculation of the minimum cost differential, and (4) certain other adjustments that may be necessary if an ISSA is being considered.

2. *Standard Cost Factors.*—Standard cost factors are to be used as prescribed in this Part. Agencies are encouraged to collect agency or sector-specific data to update and improve upon the standard cost factors provided herein. The official in paragraph 9.a. of the Circular, or designee, may develop alternative agency-wide or sector-specific standard cost factors, including overhead, for approval by OMB.

3. *Common Costs.*—Costs that would be the same for in-house, contract or ISSA performance, without organizational, workload, or responsibility changes need not be computed or entered into the cost comparison. Common costs or "wash" items will be identified in the Management Plan for review.

4. *Retained and Save Pay.*—Retained and save pay are not included in the in-house cost estimates. Agencies are encouraged to seek their Most Efficient Organization (MEO), without penalty of historical inefficiencies. Agencies cost only the "positions" in the MEO.

5. *Cost of Conducting a Cost Comparison.*—The cost of conducting a cost comparison is not added to the in-house cost estimate or contract price. This is an administrative expense associated with good

management practices and is irrelevant to the cost of performance.

6. *Proration of Performance Periods.*—Cost comparisons are conducted using not less than three years of proposal/cost data, submitted by the Government and commercial sources. In-house cost estimates and contract prices will reflect the same multi-year basis. If permitted by statute and the Federal Acquisition Regulations (FAR), performance periods for cost comparisons in excess of five years may be approved by the official in paragraph 9.a. of the Circular, or designee. Multi-year procurement or pre-priced renewal options provide advantages such as continuity of operations, the possibility of lower prices, and reduced turbulence and disruption. However, in extending the performance period, the official in paragraph 9.a. of the Circular, or designee, must certify that no known cost comparison advantage be conveyed to the in-house, contract or ISSA bid by the extension.

#### 7. *In-House Costs.*—

a. The competitive cost of in-house performance includes all significant performance costs associated with the activity that are not common to the in-house, contract or ISSA options. The in-house cost estimate is based upon the following:

- Personnel Costs
- Materials and Supply Costs
- Other Specifically Attributable Costs
  - Depreciation
  - Cost of Capital
  - Rent
  - Maintenance and Repair
  - Utilities
  - Insurance
  - Travel
  - MEO Subcontracts
  - Other Costs
- Overhead Costs
- Additional Costs

b. In addition to costs generally associated with the in-house performance of an activity, including personnel, material and overhead costs, a conversion from contract or ISSA performance to in-house performance may require increased costs for facilities and equipment. The cost of all capital assets not currently provided to the contractor will be computed using the depreciation and cost of capital methods provided in this Chapter. Increases for the rent, maintenance and repair, utilities, travel and

their associated overhead is also calculated. Government costs that would be the same for in-house, contract or ISSA operation, should be identified, but need not be computed.

**8. Minimum Cost Differentials.—**

a. This Supplement establishes a minimum threshold of undefined costs that must be exceeded prior to a conversion to or from in-house, contract or ISSA performance. The minimum differential is also established to ensure that the Government will not undertake a conversion for marginal estimated savings.

b. An activity will not be converted to or from in-house, contract or ISSA performance, on the basis of a cost comparison, unless the minimum cost differential is met. The minimum cost differential is the lesser of 10 percent of in-house personnel-related costs (Line 1) or, \$10 million over the performance period. Factors such as decreased productivity, and other costs of disruption that cannot be easily quantified at the time of the cost comparison are included in this differential.

c. Whenever a cost comparison involves a mix of existing in-house, contract, new or expanded requirements, or assumes full or partial conversions to in-house performance, each portion is addressed individually and the total minimum differential is calculated accordingly.

**9. Rounding Rule.—**Round all line entries on the Cost Comparison Form (CCF) to the nearest dollar.

**10. Inflation.—**

a. Agencies will use the annual inflation guidance developed annually for the President's Budget and provided by OMB for use in cost comparisons conducted in accordance with this Supplement.

b. In preparing cost estimates, all known or anticipated increases incurred before the end of the first performance period; e.g., salary increases for Government employees, are included in each cost element—prorated as appropriate. For subsequent periods, the cost of anticipated changes in the scope of work, as described in the PWS, is determined. Inflation factors for pay and non-pay categories will then be applied to the estimated year-end costs for the first year of performance. There are some exceptions to the inflation adjustments as discussed later, such as personnel costs subject to economic price adjustment clauses of the Service Contract Act, Davis-Bacon Act, depreciation costs for facilities and equipment, and the cost of minor items.

c. To calculate out-year costs: (1) determine the cost elements affected by inflation during each performance period. For each period, ensure that the

number of months in the period and the changes in the PWS for each period have been considered; (2) multiply each cost element for each performance period by the respective salary/wage or material cost inflation factors to the applicable performance period, and (3) once adjusted for inflation, calculate the total cost of that CCF Line item.

**11. Other ISSA Adjustments.—**

a. It is not the intent of this Supplement to require an ISSA offeror to significantly alter its methods of operation to provide unique or site specific services. While such services may meet agency missions and may legitimately be included in the solicitation, additional adjustments to the ISSA cost estimate may be necessary to reflect differences in in-house and contractor bids.

b. Agencies should identify the minor differences between the requirements of the solicitation (contractor bid) and the ISSA cost estimate. The agency determines if any item or combination of items will impact the agency's ability to perform. If the agency's ability to perform would be adversely impacted, the ISSA cost estimates may be rejected as non-responsive. If the differences will have minimal agency performance implications, and/or can continue to be performed by agency personnel, the ISSA cost estimates will be adjusted for purposes of comparison with the contractor and MEO offers, based upon the comparable costs contained in the agency's MEO.

c. A complete record of all adjustments to the contractor and ISSA cost estimates should be maintained and made available to the public upon request.

**B. Personnel—Line 1**

1. This Line includes the cost of all direct in-house labor and supervision necessary to accomplish the requirements specified in the PWS. Included are salaries, wages, fringe benefits, and other entitlements, such as uniform allowances and overtime. To determine Line 1 Personnel costs, identify the in-house staffing estimate and proper wage/grade classifications as described in the Management Plan.

2. In-house cost estimates that assume a mix of in-house labor and existing contract support should include the cost of labor for the Government's administration and in-house inspection of those support contracts on Line 1. Table 3-1, of this Part, may be used to estimate contract administration costs, based upon the estimated number of contract employees involved. The cost of the support contracts themselves, including the cost of related Government furnished equipment and facilities not provided to

the contractor under this cost comparison, should be entered on Line 3 Other Specifically Attributable costs.

3. Line 1 includes all competitive costs that could change if performance is converted to or from in-house, contract or ISSA. Thus, Line 1 may also include certain management and oversight activities, such as personnel support, environmental or OSHA compliance management, legal or other direct administrative support costs.

4. The conclusion that an activity may be performed by contract or ISSA also reflects a decision that the work need not be accomplished by military or other uniformed Government personnel. The cost of military labor in a cost comparison, even if the work will remain military if retained in-house, will be determined by the composite rate for uniformed personnel established by the DOD or other applicable Comptroller.

5. Generally, in-house staffing should be expressed in terms of productive work hours. With the establishment of the number of productive work hours required, a conversion to the number of full-time equivalents (FTE) is needed. For full-time and part-time positions, estimate the total hours required by skill and divide by 1,776 annual available hours to determine the number of FTE positions required. For intermittent positions to be expressed in FTE, estimate total hours required by skill and divide by 2,007 annual available hours to determine the number of FTE positions required. The military agency comptroller will establish comparable productive hours for military personnel included in an MEO as military positions. The productive hours exclude annual leave, sick leave, administrative leave, training and other nonproductive hours. The factors result from differences in nonproductive time between types of positions.

6. The following considerations are used to compute personnel costs:

a. *Position Title or Skill*—Identify the job. Example: carpenter, driver, janitor, supervisor, foreman, administrative clerk or department head.

b. *Grade*—Identify the appropriate GS/FWS grade for each position title or skill.

c. *Number of FTE Required*—Identify the FTE required for each grade. Identify the temporary and intermittent employee work years. This is important for later fringe benefit calculations, since intermittent and temporary employees get fewer benefits than full-time or part-time employees.

d. *Annual Salary/Wages*—Pay information can be obtained from the personnel or finance office. Use current pay rates based on the Government-wide representative rate of step 5 for GS and step 4 for FWS employees. Multiply that pay rate by the number of FTE, except for intermittent positions where actual hours are used. As a rule, GS salary is expressed as an annual rate of pay and the FWS salary is expressed as an hourly rate. For positions to be used on a prearranged regularly scheduled tour of duty, this hourly rate is multiplied by 2,087 (the number of hours employees are paid annually).

e. *Other Entitlements*—Include entitlements that will also earn fringe benefits. Work closely with the personnel office to make sure all entitlements are considered and to obtain current factors. Examples include: night differential pay for FWS employees, environmental differential pay and premium pay for Federal civilian fire fighters and law enforcement officers.

f. *Fringe Benefits or FICA*—The following fringe benefit factors are estimated according to the Federal Accounting Standards for Liabilities-Exposure. Multiply the following Governmentwide standard factors by the appropriate basic pay:

(1) Full or part-time permanent Federal civilian employees:

(a) The standard retirement cost factor represents the Federal Government's complete share of the weighted CSRS/FERS retirement cost to the Government, based upon the full dynamic normal cost of the retirement systems; the normal cost of accruing retiree health benefits based on average participation rates; Social Security, and Thrift Savings Plan (TSP) contributions. The current (1996) rate is 23.7 percent of base payroll for all agencies. The comparable retirement cost factors for special class employees are 32.3 percent for air traffic controllers and 37.7 percent for law enforcement and fire protection employees.

(b) The cost factor to be used for Federal employee insurance and health benefits, based on actual cost, is 5.6 percent, plus an additional 1.45 percent for Medicare.

(c) The cost factor to be used for Federal employee miscellaneous fringe benefits (workmen's compensation, bonuses and awards, and unemployment programs) is 1.7 percent.

(2) Intermittent or temporary Federal civilian employees.—The Federal Insurance Contribution Act (FICA) employer cost factor of 7.65 (or the current rate established by law) will be applied to civilian employees not covered by either of the two civilian

civil service retirement systems (normally intermittent and temporary employees). Apply the FICA rate only to wages and salaries subject to the tax; there is an annual salary limitation for FICA tax.

g. *Other Pay*—Include entitlements that do not earn fringe benefits. Some examples are night differential pay for GS employees, overtime, holiday, awards, bonuses, and uniform allowances.

h. *Personnel Cost*—Add Basic Pay, Fringe Benefits or FICA and other pay for all positions and total for both Federal Wage System (FWS) and General Schedule (GS) categories. This figure can now be used as a basis to compute the annual personnel costs for each performance period.

7. Adjustments to annual personnel costs for each performance period are made to reflect anticipated pay increases.

8. All in-house wages, salaries and other costs are adjusted for inflation consistent with the economic assumptions used in the President's most recent Budget, through the end of the first year of performance. Federal wages and salaries for contracts that contain an economic adjustment clause or are subject to the Service Contract Act (SCA) (41 USC 351-357) or the Davis-Bacon Act (DBA) (40 USC 276a-276a-7) are inflated to the end of the first performance period. However, when using the Department of Labor criteria, certain potential contract positions may not be covered under the SCA/DBA provisions; accordingly, the in-house related costs for such positions are escalated through the end of the cost comparison period.

#### C. Material and supply—Line 2

1. Material and supply costs are incurred in each performance period for goods such as raw materials, parts, subassemblies, components and office supplies. Material costs are calculated only if the materials are used by the activity and will not be provided to the contractor or ISSA provider by the Government.

2. Review the PWS to determine the materials required for in-house performance that will not be furnished to the contractor or ISSA provider. Normally, the contractor or ISSA provider will be expected to provide the supplies and materials necessary to perform the work described in the PWS. The policy regarding contractor or ISSA use of Government provided supplies and materials is set forth in FAR 51.101. Adjust historical material use and cost data to reflect the requirements of the PWS.

3. Determine if materials can be obtained on the open market at less cost than from other Government agencies. Material cost includes material, transport,

handling and availability/delay costs. If so, obtain any necessary waivers from the other Government agency(s) to purchase materials on the open market. Include established allowances for normal scrap, spoilage, overruns and defective work. List required material by quantity needed, unit price, escalation for out-years and total cost. A single entry may be made for miscellaneous items such as office supplies.

4. If the furnishing agency establishes and certifies that all costs of acquiring, managing, storing and transporting its material are included in its pricing structure, including overhead, no material mark-up is required. If not, escalation factors based upon the principles and procedures of this Supplement should be developed.

5. Material and supply costs are projected for all performance periods, including adjustments for inflation, consistent with the economic assumption contained in the President's most recent Budget and the rate of transition to the contractor or ISSA provider, as provided in the PWS. Ensure that unit prices are calculated to the end of the first performance period. Future performance period material costs may not be inflated, if the PWS includes an escalation or economic adjustment clause. Such a clause enables a contractor or ISSA provider to be reimbursed for future price increases. The Management Plan shows the computations used to derive the entries for all performance periods.

#### D. Other specifically attributable—Line 3

1. *Overview*.—Personnel and material costs are normally the primary sources of Government costs. The remaining elements of competitive cost are also attributable to the activity. When requirements differ by period due to changes in the PWS or the Transition Plan, additional adjustments will be necessary. Ensure that such adjustments are made before applying inflation factors, if appropriate. Costs that would be the same regardless of the eventual decision, should be identified for each cost element.

| Elements of Cost             | Paragraph |
|------------------------------|-----------|
| Depreciation .....           | 2D2       |
| Cost of Capital .....        | 2D3       |
| Rent .....                   | 2D4       |
| Maintenance and Repair ..... | 2D5       |
| Utilities .....              | 2D6       |
| Insurance .....              | 2D7       |
| Travel .....                 | 2D8       |
| MEO Subcontracts .....       | 2D9       |
| Other Costs .....            | 2D10      |

**2. Depreciation.—**

a. Depreciation represents the cost of ownership and the consumption of an asset's useful life.

b. Unless an asset is fully depreciated, the Federal Accounting Standards for Property, Plant and Equipment will be used. If an applicable asset is fully depreciated, is to be used by the MEO during the performance period and is not to be provided to the contractor or ISSA provider, extend the life of the asset through the end of the performance period. The cost of depreciation is then recalculated using the extended life and original acquisition cost.

c. Individual assets costing less than \$5,000 are considered minor items and will not be depreciated, but will be added to *other costs* (see paragraph D.10). The joint use of minor items need not be prorated to the function under study. Assets costing more than \$5,000 are major items for depreciation.

d. If an in-house activity shares an asset with another activity not under review or cost comparison and that asset will not be provided for use by the contractor or ISSA, allocate depreciation to the in-house estimate on the basis of use or other appropriate methodology. If the activity is converted to contract or ISSA performance, the asset's life and utilization rate may change.

e. To find the cost of depreciation added to each option year, subtract the residual value from the total of the acquisition cost plus any capital improvements and, then, divide by the estimated useful life of the asset. Include the resultant annual depreciation for each year of the cost comparison. If the asset was acquired through transfer, seizure or forfeiture, an industry specific standard or engineering appraisal may be used to establish the market or "acquisition" value of the asset at transfer.

f. Facilities are generally categorized as permanent, semi-permanent or temporary and the useful life will be standardized for the entire grouping. The useful life expectancies listed below may be used by type of facility. If useful life has been exceeded, obtain an engineering projection of anticipated remaining useful life. These costs will be prorated to the activity under study by a unit of measure that varies directly with consumption (e.g., floor space, type of facility, number of telephones). Estimates of expenses to be incurred for the first year of performance should be based on current experience, appropriately adjusted for anticipated requirements. Engineering estimates should be used when historical data are not available. All estimates should be appropriately documented with supporting detail.

## Facility Category

## Useful Life

|                          |          |
|--------------------------|----------|
| Permanent (P) .....      | 75 years |
| Semi-Permanent (S) ..... | 50 years |
| Temporary (T) .....      | 25 years |

**3. Cost of Capital.—**

a. The annual cost of capital is added to the depreciation cost of any asset costing more than \$5,000 acquired by the Government if: (1) not provided for the contractor's or ISSA provider's use, (2) is purchased less than two years prior to the cost comparison date or (3) is scheduled for purchase within the performance period.

b. The cost of capital is defined as an imputed charge on the Government's investment in capital assets necessary for the activity to provide the product or service.

c. To estimate the annual cost of capital, it is necessary to identify the total depreciable acquisition cost of new assets or, if acquired by transfer, forfeiture or seizure, the market value of the assets. The total cost results from the value of the asset, transportation costs (if not already included in the purchase price) and any installation costs to place the asset in operation. The cost of capital will be computed by applying the nominal rate provided by OMB Circular A-94 to the determined total cost of the asset.

4. *Rent.*—Rent is incurred for the use, operation and maintenance of land, building space, plant and machinery, etc., by the activity under study. Compute only those costs that are associated with the MEO, on an allocated basis, not provided to the contractor or ISSA provider.

5. *Maintenance and Repair.*—This cost is incurred to keep buildings and equipment in normal operating condition. It does not include capital improvements that add value to an asset and are accounted for under depreciation. Allocate maintenance and repair costs for those assets that will not be furnished to the contractor or ISSA provider but are: (1) needed for MEO performance and (2) are not covered by rental fees.

6. *Utilities.*—This category includes charges for fuel, electricity, telephone, water and sewage services, etc., that will not be furnished to the contractor or ISSA provider by the Government but are needed for in-house performance of the activity. The amount of these costs applicable to the activity under study will be determined either on a metered or allocated basis of consumption.

**7. Insurance.—**

a. Operation of any Government activity involves risks and potential costs from property losses (fire, flood, accident, etc.) and liability claims. These risks are normally covered by insurance included in any commercial cost estimate.

b. To the extent assets are not provided to the contractor or to the extent that property losses may be assessed against a contractor who uses Government space, facilities or equipment, in-house casualty premiums must be computed. Generally, the Government's casualty premium equivalent cost will be computed by multiplying .005 times the net book value of Government's equipment and/or facilities, plus the average value of material and supplies.

c. Insurance to be computed on assets will depend on the requirements of the Performance Work Statement (PWS). If the contractor or ISSA provides special casualty insurance on all Government furnished assets, compute insurance for *all* assets used by the activity under study. If the contract does not require the contractor to furnish special casualty insurance, e.g., the Government will self indemnify, compute casualty insurance on *only* those assets to be used by the activity under study that would not be provided to the contractor or ISSA provider, as appropriate.

d. Personnel liability losses will be computed by multiplying .007 times the Government's total personnel-related costs on Line 1. Additional liabilities assigned to the contractor or ISSA provider by the PWS that are not associated with personnel will also be computed by applying the standard .007 factor to the estimated liability ceiling identified in the PWS and included in the in-house cost estimate.

**8. Travel.—**This category covers the expected cost of in-house travel that would not continue in the event of contract or ISSA performance. These costs should be readily available from budgeted amounts of per diem and transportation cost for the activity under study.

**9. MEO Subcontract Costs.—**Solicitations that include work currently performed by contract and by Federal employees, should include the MEO cost of labor for the Government's administration and inspection of the continued support contracts on Line 1. The cost of the support contract itself, including the cost of related Government furnished equipment and facilities not provided to the contractor or ISSA, should be entered on Line 3. Escalate to each performance period as appropriate. Support contract costs should also be adjusted (downward) to offset for potential

Federal income tax revenue to the Government. This is done by applying the appropriate tax rates in Appendix 4 of this supplement.

**10. Other Costs.—**

a. Other Costs is a general category for specifically attributable costs that do not properly fit into one of the other cost elements, but would change in the event of contract or ISSA performance. Some examples are purchased services packaging and crating (if not already a part of material and supplies); transportation costs; and royalties. Ensure these costs are not also covered in Line 4 overhead costs.

b. Include the cost of *minor items* that are not immediately consumed by the activity and not provided to the contractor or ISSA provider. This includes items such as overhead projectors, office equipment, tools, chairs, desks, cabinets, etc. Estimate the cost of minor items for each performance period by allocating 10 percent of the total estimated replacement cost of all such items. Should the supply source markup increase the item's cost to more than \$5,000, it will still be considered a minor item.

**E. Overhead—Line 4**

1. While direct labor, supervision and material costs are prorated, as appropriate, to Lines 1 and 2, overhead expenses, which include general management and administrative expenses, are entered on Line 4.

2. Line 4 includes two major categories of cost. The first is *operations overhead* and is defined as those costs that are not 100 percent attributable to the activity under study, but are generally associated with the recurring management or support of the activity. The second is *general and administrative overhead* and includes salaries, equipment, space and other activities related to headquarters management, accounting, personnel, legal support, data processing management and similar common services performed outside the activity, but in support of the activity. These costs are affected by the conversion of work to or from in-house, contract or ISSA.

3. For each year of the cost comparison, Line 4 is calculated by multiplying Line 1, including fringe, by 12 percent (.12) and entering the total on Line 4. If military personnel are included in Line 1, apply the 12 percent factor to civilian MEO Line 1 costs only. The composite military rate should include all military related overhead.

**F. Additional—Line 5**

1. This cost element includes costs not otherwise properly classified on Lines 1 through 4. This cost category should reflect those additional costs result-

ing from unusual or special circumstances that may be encountered in particular comparisons. Examples include office and plant rearrangements, transport, employee recruitment, training, relocation, and other expenses.

2. Amounts entered on Line 5 should be supported by a definition of the type of cost reported, a justification for its inclusion in the cost comparison, an explanation of the underlying assumptions, and methods of computation.

3. The additional costs of an expansion, new requirement or conversion from contract or ISSA to in-house performance, which are added to the in-house costs, should be made on Line 5 in consultation with engineering, production, management and contracting personnel.

a. New investment by the Government in facilities and equipment should not be included as one-time

costs. The costs incurred in acquiring facilities or equipment and installing the equipment should be included in the capitalized cost of in-house performance.

b. Government facilities and equipment will not normally be expanded to accommodate new or expanded work if cost-effective contract or ISSA facilities and equipment are available. Likewise, agency ownership shall not preclude a contractor or an ISSA provider from competing for the service. If in-house operation is dependent upon the Government's purchase or construction of new facilities or other major capital asset purchases, the cost comparison and conversion to in-house performance will be delayed until the approval to purchase or construct such items is obtained, subject to the cost comparison.

**G. Total cost—in-house performance—Line 6**

Enter the sum of Lines 1 through 5 on Line 6.

## Chapter 3—Developing the Cost of Contract Performance

### A. General

This Chapter provides guidance for the determination of the cost to the Government of obtaining a commercial product or service by contract or inter-service support agreement (ISSA). It includes a determination of not only the amount to be paid to the contractor/provider (price) but also a determination of the additional costs to the taxpayer that would be incurred in the event of a conversion.

### B. Contract price—Line 7

1. *Overview.*—The contract or ISSA price reflects the cost to perform the requirements of the PWS as presented by the offeror selected to compete with the in-house work force. The solicitation for bids or proposals will notify the offerors that a comparison will be made between the cost of contracting, the cost of the in-house performance and, if appropriate, the cost of performance through an ISSA. A contract may or may not be awarded as a result.

#### 2. *Contract Types.*—

a. In determining the amount to be recorded as the contract price, consider the contract type. The following guidance is provided in this regard.

b. In the case of a sealed bid, firm fixed price contract, the price of the low responsible, responsive offeror will be entered. If a firm fixed price contract is to be negotiated, the negotiated price will be entered.

c. If a cost-reimbursement or cost-sharing type contract is proposed, enter the low negotiated estimate.

d. If a contract with an incentive or award fee is proposed, enter 65 percent of the potential maximum incentive or award fee plus the contract costs of the most advantageous offer to the Government.

e. If a time and material or labor-hour contract is proposed, enter the estimated total cost of performance. Alternatively, comparable rates can be developed for the Government cost estimate, developed in accordance with this Supplement, and the comparison can be made on the basis of rates, rather than costs.

#### 3. *Tax Exempt Organizations.*—

a. If the apparent low contract offeror is a tax-exempt organization, the tax-exempt's contract price is adjusted by an amount equal to the estimated Federal income taxes that the lowest non tax-exempt offeror would pay. This adjustment is necessary to determine which offeror has the lowest overall cost to the Government.

b. Calculate the Federal tax adjustment by using the procedures in paragraph G of this Chapter. Add the Federal taxes calculated to the tax-exempt's offer for comparison with other non tax-exempt offerors.

c. Compare the tax-exempt's adjusted offer to the low non tax-exempt offer. The lowest cost offeror, after this comparison, will then compete against the Government's in-house cost estimate and any ISSA proposals. If the tax-exempt's adjusted offer is lower than the low non tax-exempt offer, enter the *unadjusted* tax-exempt's offer on Line 7.

#### 4. *Procurement Preference Eligible Organizations.*—

a. If a preference eligible contractor meets the requirements of an unrestricted solicitation, and is an otherwise fully responsive offeror, the preference eligible may compete with non-preference eligible offerors. This is accomplished by adding 10 percent of each non-preference eligible's offer to their offer for initial comparison purposes only. The lowest offer, after adjustment, will be chosen to compete with the Government's in-house cost estimate and ISSA offers.

b. If the preference eligible's offer is lower than all other commercial sources—after adjustments—enter the preference eligible's price on Line 7. If the non-preference eligible's adjusted price is lower, enter the *unadjusted* non-preference eligible's price on Line 7.

### C. Contract administration—Line 8

1. Contract administration costs are incurred in administering a contract or ISSA. It includes the cost of reviewing compliance with the terms of the contract, processing payments, negotiating change orders, and monitoring the closeout of contract operations. It does not include inspection and other administrative requirements that would be common to contract and Government performance to assure acceptable performance.

2. The contract administration costs entered on Line 8 are limited to the personnel shown at Table 3-1.

3. Table 3-1 represents the estimated additional cost to administer a contract or ISSA over and above the cost to administer the same work performed by in-house employees.

4. Contract administration organization and grade structure should be certified as being in compliance with all applicable personnel regulations.

Table 3-1. Contract Administration Factors

| MEO Staffing        | Contract Administration FTE          |
|---------------------|--------------------------------------|
| 10 or less .....    | .5                                   |
| 11-20 .....         | 1                                    |
| 21-50 .....         | 2                                    |
| 51-75 .....         | 3                                    |
| 76-100 .....        | 4                                    |
| 101-120 .....       | 5                                    |
| 121-150 .....       | 6                                    |
| 151-200 .....       | 7                                    |
| 201-250 .....       | 8                                    |
| 251-300 .....       | 9                                    |
| 301-350 .....       | 10                                   |
| 351-450 .....       | 11                                   |
| 451 and above ..... | 2.5 percent of in-house MEO staffing |

**D. Additional—Line 9**

1. This cost element includes any additional costs to the Government such as transportation or purchased services resulting from unusual or special circumstances that may be encountered in particular cost comparisons.

2. The supporting documentation for additional costs should describe the nature of the cost item and indicate the reason the additional cost will not be incurred if the activity is performed with the agency's in-house resources.

3. The costs entered on Line 9 should be supported by a definition of the type of cost reported, justification for inclusion, methods of computation, and, if applicable, a detailed listing of the cost components.

4. When an in-house activity is terminated in favor of contract or ISSA performance and the agency elects to hold MEO equipment and facilities on standby, solely to maintain performance capability, the standby costs are not to be charged to the cost of the contract.

**E. One-time Conversion—Line 10**

1. *Overview*—When the Government converts to or from in-house, contract or ISSA performance, there are usually one-time costs incurred as a result of the conversion.

**2. Material Related Cost—**

a. A conversion may result in certain items of Government material or equipment, that would otherwise have been used by the in-house MEO, becoming excess and available for transfer to another in-house activity or to the contractor.

b. It should be possible to transfer the material to the contract or ISSA offeror. In this case, it may be appropriate to conduct a special joint physical

inventory and include the Government's cost of conducting the joint inventory (costs may be shared with the winning bidder) on Line 10.

c. If the transfer of existing materials to the contract or ISSA offeror is feasible, and the agency elects not to provide the material, no charge for conducting the inventory is permitted.

**3. Labor-Related Costs—**

a. A conversion will also normally result in certain one-time labor-related expenses. These may include health benefit costs, severance pay, homeowner assistance, relocation and retraining expenses and initial contractor security clearance requirements.

b. Estimated severance pay is calculated at four percent of the annual basic pay (performance period 1 only) entered on Line 1, without fringe benefits.

c. If there is a requirement for the commercial source to have access to classified information or other security clearances under existing agency directives, only those costs that would be necessitated by the conversion may be calculated. Recurring requirements necessitated by in-house attrition or by employees that may be hired under the Right-of-First-Refusal will not be included.

4. *Other Costs*.—A conversion to contract or ISSA performance may require an agency to take certain actions that would not be necessary if the activity were continued in-house. Agencies have an obligation to mitigate these costs and justify why such costs are necessary. For example, it may not be possible to terminate a rent or lease agreement without a penalty fee, or it may be necessary to move materials that are not associated with the activity under study to another location in order to facilitate conversion or the contractor's or ISSA's use of a facility. Such termination, penalty or facilitation costs are also costs caused by the conversion.

5. *One-Time Cost Computation*.—Supporting documentation should clearly state the type of cost anticipated, justification for inclusion or exclusion and methods of computation.

**F. Gain from disposal/transfer of assets—Line 11**

1. As the Government develops its MEO, certain assets may be found to be no longer needed. These assets may be disposed of or transferred without consideration in a cost comparison. The cost comparison is concerned with comparing the Government's MEO with that of the best commercial or ISSA provider. Therefore, only those assets that are to be used by the Government's MEO and not made available to the contractor or ISSA are considered on Line 11.

(March 1996)

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2. The Government should not dispose of or transfer MEO assets unless there is an economic advantage to the Government to do so. If the cost of transfer exceeds the net book value of the asset, such that there is a net loss, no such losses are assessed against the contractor or ISSA. Management has made a decision not to make such assets available to the contractor or ISSA irrespective of the economic costs related to such a decision.

3. The net gain generated to the Government as a result of a conversion to a contract or ISSA and a decision not to provide certain MEO assets to the contractor or ISSA should equate to the net book value of the asset less any costs incurred to remove the asset.

**G. Federal income tax—Line 12**

1. When developing the Government's cost of contract performance, the potential Federal income tax revenue should be considered. Since contract performance would provide the contractor with income subject to tax, an estimated amount of such taxes is an appropriate deduction from the net cost to

the Government, unless the prospective contractor is a tax-exempt organization.

2. To simplify the tax computation, Appendix 4, prepared by the Internal Revenue Service, provides, by types of industry, appropriate tax rates in relation to business receipts. The industry groupings conform to the Enterprise Standard Industrial Classification issued by the Department of Commerce. To determine the amount of estimated Federal income tax, the contract price (Line 7 of the GCCF) for each performance period will be multiplied by the applicable tax rate. The estimated amount of Federal income tax will be entered on Line 12 as a deduction, i.e. negative, reducing the cost of contracting.

**H. Total cost—contract or ISSA performance—Line 13**

Add Lines 7, 8, 9 and 10. If there is a number in parenthesis, i.e., a deduction, in Line 11, add to Line 12 and subtract this total from the total of Lines 7 through 10 and enter the difference on Line 13.

## Chapter 4—Calculating the Cost Comparison Decision

### A. Conversion differential—Line 14

1. A minimum cost differential of the lesser of: (1) 10 percent of personnel costs (line 1) or (2) \$10 million over the performance period, has been established that must be met before converting to or from in-house, contract or interservice support agreement (ISSA) performance. The minimum differential is established to ensure that the Government will not convert for marginal estimated savings.

2. Whenever a cost comparison involves a mix of existing in-house, contract, new or expanded requirements, or assumes full or partial conversions to in-house performance, each portion is addressed individually and the total minimum differential is calculated accordingly.

### B. Adjusted total in-house cost—Line 15

If the cost comparison is being conducted to determine if an activity should be converted from contract or ISSA performance to in-house operation, the conversion differential as calculated above (Line 14) is added to the In-house performance cost estimate (Line 6, Total Column only) and the sum is entered

under Adjusted Total Cost of In-House Performance (Line 15). The amount in the Total Column for Line 13 is replicated on Line 16.

### C. Adjusted total contract or ISSA cost—Line 16

If the cost comparison is being conducted to determine if an activity should be converted from in-house operation to contract or ISSA performance, the conversion differential as calculated above (Line 14) is added to the Contract performance cost estimate (Line 13, Total Column only) and the sum is entered under Adjusted Total Cost of Contract or ISSA Performance (Line 16). The amount in the Total Column for Line 6 is replicated on Line 15.

### D. The cost comparison decision—Lines 17 and 18

Subtract Line 15 from Line 16 and enter the result on Line 17. A positive amount on Line 17 supports a decision to perform the activity with in-house resources. A negative amount on Line 17 supports a decision to accomplish the work with contract resources. Indicate in the appropriate block on Line 18 the decision supported by Line 17.

## ILLUSTRATION II-1

## THE GENERIC A-76 COST COMPARISON FORM (GCCF)

## IN-HOUSE VS. CONTRACT OR ISSA PERFORMANCE

|                                                         | Performance Periods |     |     |       |       |           |
|---------------------------------------------------------|---------------------|-----|-----|-------|-------|-----------|
|                                                         | 1st                 | 2nd | 3rd | Add'l | Total | Reference |
| <b><u>IN-HOUSE PERFORMANCE</u></b>                      |                     |     |     |       |       |           |
| 1. Personnel                                            |                     |     |     |       |       |           |
| 2. Material and Supply                                  |                     |     |     |       |       |           |
| 3. Other Specifically Attributable                      |                     |     |     |       |       |           |
| 4. Overhead                                             |                     |     |     |       |       |           |
| 5. Additional                                           |                     |     |     |       |       |           |
| 6. Total In-house                                       |                     |     |     |       |       |           |
| <b><u>CONTRACT OR ISSA PERFORMANCE</u></b>              |                     |     |     |       |       |           |
| 7. Contract/ISSA Price                                  |                     |     |     |       |       |           |
| 8. Contract Administration                              |                     |     |     |       |       |           |
| 9. Additional                                           |                     |     |     |       |       |           |
| 10. One-time Conversion                                 |                     |     |     |       |       |           |
| 11. Gain on Assets                                      | ( )                 | ( ) | ( ) | ( )   | ( )   |           |
| 12. Federal Income Taxes                                | ( )                 | ( ) | ( ) | ( )   | ( )   |           |
| 13. Total Contract or ISSA                              |                     |     |     |       |       |           |
| <b><u>DECISION</u></b>                                  |                     |     |     |       |       |           |
| 14. Minimum Conversion Differential                     |                     |     |     |       |       |           |
| 15. Adjusted Total Cost of In-house Performance         |                     |     |     |       |       |           |
| 16. Adjusted Total Cost of Contract or ISSA Performance |                     |     |     |       |       |           |
| 17. Decision—Line 16 minus Line 15                      |                     |     |     |       |       |           |
| 18. Cost Comparison Decision: Accomplish Work           |                     |     |     |       |       |           |
| In-House (+)                                            |                     |     |     |       |       |           |
| Contract or ISSA (-)                                    |                     |     |     |       |       |           |

## THE GENERIC A-76 COST COMPARISON FORM (GCCF)

19. In-House MEO Certified By: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_  
Office and Title

"I certify that, to the best of my knowledge and belief, the in-house organization reflected in this cost comparison is the most efficient and cost effective organization that is fully capable of performing the scope of work and tasks required by the Performance Work Statement. I further certify that I have obtained from the appropriate authority concurrence that the organizational structure, as proposed, can and will be fully implemented — subject to this cost comparison, in accordance with all applicable Federal regulations.

20. In-House Cost Estimate Prepared By: \_\_\_\_\_ Date: \_\_\_\_\_

21. Independent Reviewer: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_  
Office and Title

"I certify that I have reviewed the Performance Work Statement, Management Plan, In-house cost estimates and supporting documentation available prior to bid opening and, to the best of my knowledge and ability, have determined that: (1) the ability of the in-house MEO to perform the work contained in the Performance Work Statement at the estimated costs included in this cost comparison is reasonably established and, (2) that all costs entered on the cost comparison have been prepared in accordance with the requirements of Circular A-76 and its Supplement.

22. Cost Comparison Completed By: \_\_\_\_\_ Date: \_\_\_\_\_

23. Contracting Officer: \_\_\_\_\_ Date: \_\_\_\_\_

24. Tentative Cost Comparison

Decision Announced By: \_\_\_\_\_ Date: \_\_\_\_\_

25. Appeal Authority (if applicable): \_\_\_\_\_ Date: \_\_\_\_\_

## Chapter 5—Streamlined Cost Comparisons for Activities with 65 FTE or Less.

### A. General

1. This chapter provides procedures that may be used when the Government determines that a simplified cost comparison will serve the equity and fairness purposes of Circular A-76 for conversion to or from in-house, contract or interagency support agreement (ISSA). The methodology is limited to activities that meet the following criteria:

- a. possible conversion to or from in-house, contract or ISSA performance involving 65 FTE or less;
- b. activities that will compete largely on a labor and material cost basis such as, but not limited to, custodial, grounds, guard, refuse, pest control, warehousing and maintenance services;
- c. activities for which significant capital asset purchases are not required or for which all equipment requirements will be Government Furnished/Contractor Operated (GOCO), and
- d. activities that are commonly contracted by the Government and/or private sector, e.g., there are not less than four comparable agency contracts of the same general type and scope and the range of the existing service contract costs are reasonably grouped.

2. In no case, shall any commercial activity involving 66 or more FTE be modified, reorganized, divided or in any way changed for the purpose of circumventing the requirements of this section or other procedures of this Supplement.

3. A Streamlined Cost Comparison Form (SCCF) is provided at Illustration II-2.

### B. Procedure

1. The streamlined A-76 cost comparison process assumes that the activity being considered is regularly performed by contract. Thus, it assumes that existing fixed price contracts can be used, with only minor modification, to define the scope of the competition and to avoid the need for the development of a new or original Performance Work Statement (PWS) or a formal solicitation.

2. The employee participation and notification provisions of Part I apply.

3. The Government will base its in-house costs on the current organization.

4. The Government's in-house Labor and Material costs (Lines 1 and 2 of the Generic A-76 Cost Comparison Form) will be calculated in accordance with Chapter 2 of this Part. Overhead costs will be calculated as provided by Chapter 2 of this Part for

Line 4. Any contract support costs normally included in Line 5 of the GCCF will be calculated. No other in-house costs will be calculated. The provisions for an Independent Review apply. Upon acceptance by the agency's A-76 IRO, the in-house cost estimate will be sealed and submitted to the contracting officer.

5. Upon receipt of the in-house cost estimate, the contracting officer will develop a range of contract cost estimates, based upon not less than four comparable service contracts or ISSA offers. Adjustments for differences in scope may be necessary. The contracting officer is not required to issue a solicitation for bids from the private sector. If, however, the contracting officer finds that four comparable contracts or ISSA offers are not available, the contracting officer may issue a solicitation for bids and the agency may conduct a cost comparison as otherwise provided by this Supplement.

6. At cost comparison, the in-house cost estimate will be compared with ISSA offers and the range of estimated contract costs developed by the contracting officer. The range of estimated contract costs will then be adjusted for the cost of contract administration (limited to Table 3-1) and Federal tax impacts. In calculating the Adjusted Total Costs, the minimum conversion differential shall be added to the total cost of contract or ISSA performance if the cost comparison is being conducted to determine if an activity should be converted from in-house operation to contract or ISSA performance. If the comparison is being conducted to determine if an activity should be converted from contract or ISSA performance to in-house operation, the differential is added to the total cost of in-house performance.

7. If the Government's Adjusted Total In-house Cost estimate is greater than the range of Adjusted Total Contract or ISSA Cost estimates, the contracting officer will announce a tentative decision to contract or enter into an ISSA. Upon notification of adversely affected Federal employees and publication of this tentative decision in the *Commerce Business Daily*, the A-76 Administrative Appeal process outlined in this Supplement will be initiated. With the A-76 Administrative Appeal Authority's confirmation of all costs entered on the SCCF and certification of the reasonableness of the contract and ISSA pricing adjustments made by the contracting officer, the contracting officer will solicit for award to contract or ISSA performance. The Right-of-First-Refusal will

be offered to employees adversely affected by the award.

8. If the Government's Adjusted Total In-house Cost estimate is below or within the range of Adjusted Total Contract or ISSA Cost estimates, the contracting officer will announce a tentative decision that the activity will be performed in-house. Again, upon notification of Federal employees and publication of the tentative decision in the *Commerce Business Daily*,

the A-76 Administrative Appeal process will be initiated.

9. Activities to be performed or retained in-house as a result of a streamlined cost comparison should be submitted to Post-MEO Performance Review, in compliance with this Supplement. This recognizes that, for retained activities, the existing organization is assumed to be the MEO and no management plan is required.

ILLUSTRATION II-2

THE STREAMLINED A-76 COST COMPARISON FORM (SCCF)  
(LIMITED TO 65 FTE OR LESS)

IN-HOUSE VS. CONTRACT OR ISSA PERFORMANCE

|                                                         | Performance Periods |     |     |       |       |           |
|---------------------------------------------------------|---------------------|-----|-----|-------|-------|-----------|
|                                                         | 1st                 | 2nd | 3rd | Add'l | Total | Reference |
| <b><u>IN-HOUSE PERFORMANCE</u></b>                      |                     |     |     |       |       |           |
| 1. Personnel                                            |                     |     |     |       |       |           |
| 2. Material                                             |                     |     |     |       |       |           |
| 3. Overhead                                             |                     |     |     |       |       |           |
| 4. Other                                                |                     |     |     |       |       |           |
| 5. Total In-house                                       |                     |     |     |       |       |           |
| <b><u>CONTRACT OR ISSA PERFORMANCE</u></b>              |                     |     |     |       |       |           |
| 6. Contract and ISSA Price Range                        |                     |     |     |       |       |           |
| 7. Contract Administration                              |                     |     |     |       |       |           |
| 8. Federal Taxes (-)                                    |                     |     |     |       |       |           |
| 9. Total Contract and ISSA Price Range                  |                     |     |     |       |       |           |
| <b><u>DECISION</u></b>                                  |                     |     |     |       |       |           |
| 10. Minimum Conversion Differential                     |                     |     |     |       |       |           |
| 11. Adjusted Total Cost of In-house Performance         |                     |     |     |       |       |           |
| 12. Adjusted Total Cost of Contract or ISSA Performance |                     |     |     |       |       |           |
| 13. Cost Comparison (Line 12 minus Line 11)             |                     |     |     |       |       |           |
| 14. Cost Comparison Decision:                           |                     |     |     |       |       |           |
| Perform In-House                                        |                     |     |     |       |       |           |
| Convert to Contract or ISSA                             |                     |     |     |       |       |           |

**THE STREAMLINED A-76 COST COMPARISON FORM (SCCF)  
(LIMITED TO 65 FTE OR LESS)**

15. In-House Cost Estimate Prepared By: \_\_\_\_\_ Date: \_\_\_\_\_

16. Independent Reviewer: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_  
Office and Title

"I certify that I have reviewed the proposed contract, in-house and ISSA cost estimates and contract prices and find them to be reasonable and calculated in accordance with the principles and procedures of Circular A-76 and its Supplement.

17. Cost Comparison Completed By: \_\_\_\_\_ Date: \_\_\_\_\_

18. Contracting Officer: \_\_\_\_\_ Date: \_\_\_\_\_

19. Tentative Cost Comparison  
Decision Announced By: \_\_\_\_\_ Date: \_\_\_\_\_

20. Appeal Authority (if applicable): \_\_\_\_\_ Date: \_\_\_\_\_

## APPENDIX 1

## Definition of Terms

**Administrative appeal authority.**—With receipt of an appeal, the official designated in paragraph 9.a. of the Circular A-76, or designee, assigns an official(s) to serve on an A-76 Administrative Appeal Authority for that appeal. The individual(s) selected must be: (a) independent of the activity under review or, (b) at least two organizational levels above the official who certified the Government's Management Plan and MEO. The Appeal Authority reviews appeals to ensure that all costs are properly accounted for in accordance with the principles and procedures of this Supplemental Handbook. The Authority shall also ensure that all participants have full and equal access to the decision process.

**Affected parties.**—Federal employees and existing Federal contractors that will or could be impacted by a decision to waive a cost comparison or have submitted bids to convert to or from in-house, contract or ISSA performance, as a result of a cost comparison, and their representatives are affected parties. Agencies or parts of agencies that have submitted formal bids or offers, in order to compete for the right to provide services through ISSAs, are also considered affected parties.

**Commercial activity.**—A commercial activity is the process resulting in a product or service that is or could be obtained from a private sector source. Agency missions may be accomplished through commercial facilities and resources, Government facilities and resources or mixes thereof, depending upon the product, service, type of mission and the equipment required.

**Commercial source.**—A commercial source is any business or other concern that is eligible for contract award in accordance with Federal Acquisition Regulations.

**Contract administration.**—Contract administration includes those inherently governmental activities performed by warranted contracting officers (CO), the contracting officer's technical representatives (COTR), and related payment evaluation staff. Contract administration is not to be confused with contract quality control, performance evaluation or inspection, which are defined as commercial activities by this Supplement and OFPP Policy Letter 92-1.

**Conversion to contract.**—A conversion to contract is the change of performance of a commercial activity

from in-house performance by Federal employees to performance by a commercial source.

**Conversion from contract.**—Conversion from contract to in-house performance means the change of a commercial activity from performance by contract with a commercial source to performance by Federal employees with Government resources. It also includes the conversion of expansions and/or new requirements (work) from contract performance to in-house performance.

**Core capability.**—A core capability is a commercial activity operated by a cadre of highly skilled employees, in a specialized technical or scientific development area, to ensure that a minimum capability is maintained. The core capability does not include the skills, functions or FTE that may be retained in-house for reasons of National Defense, including military mobilization, security or rotational necessity, or to the patient care or research and development activities, as provided in Part I, Chapter 1 of this Supplement.

**Cost comparison.**—A cost comparison is the process whereby the estimated cost of Government performance of a commercial activity is formally compared, in accordance with the principles and procedures of this Circular and Supplement, to the cost of performance by commercial or ISSA sources.

**Expansion.**—An expansion is the modernization, replacement, upgrading or the enlargement of an in-house commercial activity or capability. If the expansion involves a 30-percent increase in the operating cost of the activity, a 30-percent increase in the total capital investment to perform the activity or an increase of 65 FTE or more, a cost comparison is required prior to authorizing in-house performance. A consolidation of two or more existing commercial activities is not an expansion, unless the total operating cost is 30 percent greater than the total of the individual components or it requires an increase of 65 FTE or more.

The above definition notwithstanding, pursuant to OMB Circular A-126 all aircraft purchase decisions should be justified through formal cost comparison, as provided by this Supplement.

**Exemption.**—An exemption is a determination, made in accordance with Circular A-76 and this Supplement, that a commercial activity may be converted to or from in-house, contract or ISSA performance,

without cost comparison and may be justified by reasons other than cost.

**Inherently governmental activity.**—An inherently governmental activity is one that is so intimately related to the public interest as to mandate performance by Federal employees. Activities that meet these criteria are not in competition with commercial sources, are not generally available from commercial sources and are, therefore, not subject to Circular A-76 or this Supplement. Guidance to avoid an unacceptable transfer of official responsibility to contract performance may be found in the Office of Federal Procurement Policy (OFPP) Policy Letter 92-1. See Appendix 5.

**Independent Review Officer (IRO).**—The agency official who certifies—prior to bid opening—that the Government's performance and cost comparison estimates have been prepared in accordance with Circular A-76 and this Supplement.

**ISSA.**—The provision of a commercial activity, in accordance with an interservice support agreement, on a reimbursable basis. This includes franchise funds, revolving funds and working capital funds.

**Management Plan.**—The Management Plan is the document that outlines the changes that will result in the Government's Most Efficient Organization (MEO) to perform a commercial activity in-house. It provides the staffing patterns and operating procedures that serve as a baseline for in-house cost estimates.

**Most Efficient Organization (MEO).**—The MEO refers to the Government's in-house organization to perform a commercial activity. It may include a mix of Federal employees and contract support. It is the basis for all Government costs entered on the Cost Comparison Form. The Most Efficient Organization (MEO) is the product of the Management Plan and is based upon the Performance Work Statement (PWS).

**National defense activity.**—A national defense activity is a commercial activity that is approved by the Secretary of Defense, or designee, as being subject to deployment in a direct military combat support role.

**National security.**—A national security activity is a commercial activity that is approved by the Director of Central Intelligence, or designee, as being necessary to meet the national security.

**New requirements.**—A new requirement is a newly established need for a commercial product or service.

**Overhead.**—Overhead is included in the in-house estimate and is defined as those costs that are not directly attributable to the activity under study.

**Performance measures.**—Performance measures provide a series of indicators, expressed in qualitative, quantitative or other tangible terms, that indicate whether current performance is reasonable and cost effective. Performance measures can include workload and output-to-cost ratios, transaction ratios, error rates, consumption rates, inventory fill rates, timeliness measures, completion and back order rates, etc. Quality service measures may include responsiveness rates, user satisfaction rates, etc.

**Performance standard.**—A performance standard reflects the minimum, sector-specific, Federal requirement for the performance of a commercial activity. It incorporates both quality measures and cost measures. Cost measures reflect the cost comparability procedures of Part II of this Supplement to assure equity in the comparison of performance standards with private industry standards.

**Performance Work Statement (PWS).**—A Performance Work Statement is a statement of the technical, functional and performance characteristics of the work to be performed, identifies essential functions to be performed, determines performance factors, including the location of the work, the units of work, the quantity of work units, and the quality and timeliness of the work units. It serves as the scope of work and is the basis for all costs entered on the Cost Comparison Form.

**Post-MEO performance review.**—When services are performed in-house, as a result of a cost comparison, including those involving an interservice support agreement, a formal review and inspection of the Most Efficient Organization (MEO) should be conducted. Typically, this review should be conducted following the end of the first full year of performance. Post-MEO Performance Reviews confirm that the MEO has been implemented in accordance with the Transition Plan, establish the MEO's ability to perform the services of the PWS and confirm that actual costs are within the estimates contained in the in-house cost estimate. Adjustments may be made for formal mission or scope of work changes.

**Preferential procurement programs.**—These are special "commercial" source programs, such as Federal Prison Industries and the workshops administered by the Committee for the Purchase from the Blind and Other Severely Handicapped under the Javits-Wagner-O'Day Act.

**Performance requirements summary (PRS).**—A PRS is a synopsis of the scope of work and output performance measurements that may be used in conjunction

with aviation cost comparisons that rely on the GSA FAMIS data system for identifying contract costs.

**Privatization.**—Privatization is the process of changing a public entity or enterprise to private control and ownership. It does not include determinations as to whether a support service should be obtained through public or private resources, when the Government retains full responsibility and control over the delivery of those services.

**Quality assurance surveillance.**—Quality Assurance Surveillance is the method by which Federal employees will supervise in-house or contract performance to ensure that the standards of the PWS are met within the costs bid.

**Reasonable or competitive prices.**—The expected range of prices resulting from experience obtained through the competitive free enterprise system for like or similar activities. Determinations are to be made by the contracting officer.

**Recurring commercial activity.**—A recurring commercial activity is one that is required by the Government on a consistent and long term basis. This definition does not imply an hourly, daily, monthly or annual requirement, but must, in a general sense, be repet-

itive in nature, wherein the expected workload can be reasonably estimated.

**Sector.**—Certain commercial activities are common to more than one agency. Many of these commercial activities can be aggregated. For example, an agency may inventory transportation acquisition, operations, maintenance and disposal as independent commercial activities.

**Severable expansion.**—A severable expansion is an expansion of currently contracted, in-house or inter-service support agreement provided work that could be provided using the current approach or could, without severe additional administrative burden, be provided by another competitive offeror. Economies of scale are not justification for dismissing new or expanded work as severable, these economies will be tested through competitive offer.

**Start date.**—This term is used in two ways. First, it is the date when a cost comparison begins, generally defined as the date that a local Study Team is formed and actual work on the Performance Work Statement, Management Plan and in-house cost estimate begins. Second, it may refer to the actual date work is scheduled to begin under a contract, as provided in the solicitation.

## APPENDIX 2

### Commercial Activities Inventory

#### A. Annual Inventory Submission

In accordance with the FAIR Act, Circular A-76 and this Handbook, each agency must submit to OMB, by June 30 of each year, a detailed Commercial Activities Inventory of all commercial activities performed by in-house employees, including, at a minimum, the following:

- a. Organization unit.
- b. State(s).
- c. Location(s).
- d. FTE.
- e. Activity function code.
- f. Reason code.
- g. Year the activity first appeared on FAIR Act Commercial Activities Inventory (initial value will be 1999).
- h. Name of a Federal employee responsible for the activity or contact person from whom additional information about the activity may be obtained.
- i. Year of cost comparison or conversion (if applicable).
- j. CIV/FTE savings (if applicable).
- k. Estimated annualized Cost Comparison dollar savings (if applicable).
- l. Date of completed Post-MEO Performance Review (if applicable).

Agencies have the discretion to automate and to structure the initial submission of the detailed inventory as they believe most appropriate, so long as the inventory includes each of these data elements. Agencies must transmit an electronic version of the inventory to OMB as well as two paper copies. The elec-

tronic version should be in a commonly used software format (commercial off-the-shelf spreadsheet, database or word processing format). OMB anticipates issuing additional guidance on the structure and format of future inventory submissions, based on the experience gained from the first annual review and consultation process.

#### B. Reporting

The above is public information. The data may be summarized into reports for the Congress, the General Accounting Office (GAO), agency officials, OMB or the public.

#### C. FTE

Enter the number of authorized full-time employees or FTE (as applicable) in the commercial activity function or functions as of the date of the inventory. Employees performing inherently Governmental activities are not reported in the Commercial Activities Inventory.

#### D. A-76 Commercial activity functional codes

The Department of Defense has developed a comprehensive list of function codes for use in their A-76 inventory system. In applying these function codes Government-wide, the codes standardize the functional descriptions of activities and facilitate the aggregation of activities Government-wide and by agency.

#### E. Reason codes

The following reason codes will be used in the Commercial Activities Inventory. Agencies may add additional sub-groupings (A1, A2 for example) within any reason code, as deemed necessary.

| Code | Explanation                                                                                                                                                                                                    |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A    | Indicates that the function is performed by Federal employees and is specifically exempt by the agency from the cost comparison requirements of the Circular and this Supplement.                              |
| B    | Indicates that the activity is performed by Federal employees and is subject to the cost comparison or direct conversion requirements of the Circular and this Supplement.                                     |
| C    | Indicates that the activity is performed by Federal employees, but it has been specifically made exempt from the provisions of the Circular and this Supplement by Congress, Executive Order or OMB.           |
| D    | Indicates that the function is currently performed by in-house Federal employees and is in the process of being cost compared or converted directly to contract or interservice support agreement performance. |
| E    | Indicates that the function is retained in-house as a result of a cost comparison.                                                                                                                             |
| F    | Indicates the function is currently being performed by Federal employees, but a review is pending force restructuring decisions (i.e., base closure, realignment, consolidation, etc.).                        |
| G    | Indicates that the function is prohibited from conversion to contract because of legislation.                                                                                                                  |
| H    | Waiver issued.                                                                                                                                                                                                 |
| I    | Indicates the function is being performed in-house as a result of a cost comparison resulting from a decision to convert from contract to in-house performance.                                                |

#### F. Maintenance of aggregate data

Agencies should maintain aggregate program implementation data by fiscal year, to include: total number of studies, FTE and dollar savings by conversion to contract, conversion to in-house or otherwise retained in-house. Agencies should also track total FTE studied and MEO savings generated.

#### G. Inventory Review and Publication; Challenges and Appeals.

1. Review and Publication: In accordance with Section 2 of the FAIR Act, OMB will review the agency's Commercial Activities Inventory and consult with the agency regarding its content. After this review is completed, OMB will publish a notice in the Federal Register stating that the inventory is available to the public. Once the notice is published, the agency will transmit a copy of the detailed Commercial Activities Inventory to Congress and make the materials available to the public through its Washington, D.C. or headquarters offices.

2. Challenges and Appeals: Under Section 3 of the FAIR Act, an agency's decision to include or

exclude a particular activity from the Commercial Activities Inventory is subject to administrative challenge and, then, possible appeal by an "interested party." Section 3(b) of the FAIR Act defines "interested party" as:

a. A private sector source that (A) is an actual or prospective offeror for any contract or other form of agreement to perform the activity; and (B) has a direct economic interest in performing the activity that would be adversely affected by a determination not to procure the performance of the activity from a private sector source.

b. A representative of any business or professional association that includes within its membership private sector sources referred to in a. above.

c. An officer or employee of an organization within an executive agency that is an actual or prospective offeror to perform the activity.

d. The head of any labor organization referred to in section 7103(a) (4) of title 5, United States Code that includes within its membership officers or employees of an organization referred to in c. above.

3. An interested party may submit to an executive agency an initial challenge to the inclusion or exclusion of an activity within 30 calendar days after publication of OMB's Federal Register notice stating that the inventory is available. The challenge must set forth the activity being challenged with as much specificity as possible, and the reasons for the interested party's belief that the particular activity should be reclassified as inherently Governmental (and therefore be deleted from the inventory) or as commercial (and therefore be added to the inventory) in accordance with OFPP Policy Letter 92-1 on inherently Governmental functions (see Appendix 5) or as established by precedent (such as when other agencies have contracted for the activity or undergone competitions for this or similar activities).

4. The agency head may delegate the responsibility to designate the appropriate official(s) to receive and decide the initial challenges. As mandated by the FAIR Act, the deciding official must decide the initial challenge and transmit to the interested party a written notification of the decision within 28 calendar days of receiving the challenge. The notification must include a discussion of the rationale for the decision and, if the decision is adverse, an explanation of the party's right to file an appeal.

5. An interested party may appeal an adverse decision to an initial challenge within 10 working days after receiving the written notification of the deci-

sion. The agency head may delegate the responsibility to receive and decide appeals to the official identified in paragraph 9.a of the Circular (or an equivalent senior policy official), without further delegation. Within 10 working days of receipt of the appeal, the official must decide the appeal and transmit to the interested party a written notification of the decision together with a discussion of the rationale for the decision. The agency must also transmit to OMB and the Congress a copy of any changes to the inventory that result from this process, make the changes available to the public and publish a notice of public availability in the Federal Register.

#### **H. Agency Review and Use of Inventory.**

Section 2(d) of the FAIR Act requires that each agency, within a reasonable time after the publication of the notice that its inventories are publicly available, review the activities on the detailed commercial activities inventory. Agencies will report to OMB on this process as part of the Report on Agency Management of Commercial Activities required under Paragraph I, below. In addition, Section 2(d)-(e) of the FAIR Act provides that, each time the head of the executive agency considers contracting with a private-sector source for the performance of an activity included on the inventory, the agency must use a competitive process to select the source and must ensure that, when a cost comparison is used or otherwise required for the comparison of costs, all costs are considered and the costs considered are realistic and fair. In carrying out these requirements, agencies must rely

on the guidance contained in Circular A-76 and this Supplemental Handbook to determine if cost comparisons are required and what competitive method is appropriate. All competitive costs of in-house and contract performance are included in the cost comparison, when such comparison is required, including the costs of quality assurance, technical monitoring, liability insurance, retirement benefits, disability benefits and overhead that may be allocated to the function under study or may otherwise be expected to change as a result of changing the method of performance.

#### **I. Annual Report on Agency Management of Commercial Activities.**

As part of ongoing agency responsibility to manage their performance of commercial activities and ongoing OMB oversight, OMB will require agencies to report annually on such management. The content of the reports is likely to vary depending upon the progress made by each agency in reviewing their inventory and on the experience OMB gains from the first round of inventory submissions, review, challenges and appeals mandated by the FAIR Act. OMB anticipates issuing subsequent guidance if it determines that supplemental reports or other information is needed for future inventory submissions to assure that agencies have correctly implemented all of the provisions of the FAIR Act and taken advantage of the management information inherent in the detailed Commercial Activities Inventory.

**A-76 Commercial Activation Functional Codes**

|      | <b>G—Social Services</b>                                                     |
|------|------------------------------------------------------------------------------|
| G001 | Care of Remains of Deceased Personnel & Funeral Services                     |
| G008 | Commissary Store Operation                                                   |
| G009 | Clothing Sales Store Operations                                              |
| G010 | Recreational Library Services                                                |
| G011 | Morale, Welfare, and Recreation Services                                     |
| G012 | Community Services                                                           |
| G900 | Chaplain Activities and Support Services                                     |
| G901 | Housing Administrative Services                                              |
| G904 | Family Services                                                              |
| G999 | Other Social Services                                                        |
|      | <b>H—Health Services</b>                                                     |
| H101 | Hospital Care                                                                |
| H102 | Surgical Care                                                                |
| H105 | Nutritional Care                                                             |
| H106 | Pathology Services                                                           |
| H107 | Radiology Services                                                           |
| H108 | Pharmacy Services                                                            |
| H109 | Physical Therapy                                                             |
| H110 | Material Services                                                            |
| H111 | Orthopedic Services                                                          |
| H112 | Ambulance Services                                                           |
| H113 | Dental Care                                                                  |
| H114 | Dental Laboratories                                                          |
| H115 | Clinics and Dispensaries                                                     |
| H116 | Veterinary Services                                                          |
| H117 | Medical Records                                                              |
| H118 | Nursing Services                                                             |
| H119 | Preventive Medicine                                                          |
| H120 | Occupational Health                                                          |
| H121 | Drug Rehabilitation                                                          |
| H999 | Other Health Services                                                        |
|      | <b>J—Intermediate, Direct or General Repair and Maintenance of Equipment</b> |
| J501 | Aircraft Maintenance                                                         |
| J502 | Aircraft Engine Maintenance                                                  |
| J503 | Missiles                                                                     |
| J504 | Vessels                                                                      |
| J505 | Combat Vehicles                                                              |
| J506 | Noncombat Vehicles                                                           |
| J507 | Electronic and Communication Equipment Maintenance                           |
| J510 | Railway Equipment                                                            |
| J511 | Special Equipment                                                            |
| J512 | Armament                                                                     |
| J513 | Dining Facility Equipment                                                    |
| J514 | Medical and Dental Equipment                                                 |
| J515 | Containers, Textile, Tents, and Tarpaulins                                   |
| J516 | Metal Containers                                                             |
| J517 | Training Devices and Audiovisual Equipment                                   |
| J519 | Industrial Plant Equipment                                                   |
| J520 | Test, Measurement and Diagnostic Equipment                                   |
| J521 | Other Test, Measurement and Diagnostic Equipment                             |
| J522 | Aeronautical Support Equipment                                               |
| J999 | Maintenance of Other Equipment                                               |

**A-76 Commercial Activation Functional Codes—Continued**

|      | <b>K—Depot Repair, Maintenance, Modification,<br/>Conversion or Overhaul of Equipment</b> |
|------|-------------------------------------------------------------------------------------------|
| K531 | Aircraft                                                                                  |
| K532 | Aircraft Engines                                                                          |
| K533 | Missiles                                                                                  |
| K534 | Vessels                                                                                   |
| K535 | Combat Vehicles                                                                           |
| K536 | Noncombat Vehicles                                                                        |
| K537 | Electronic and Communication Equipment                                                    |
| K538 | Railway Equipment                                                                         |
| K539 | Special Equipment                                                                         |
| K540 | Armament                                                                                  |
| K541 | Industrial Plant Equipment                                                                |
| K542 | Dinning and Facility Equipment                                                            |
| K543 | Medical and Dental Equipment                                                              |
| K544 | Containers, Textile, Tents, and Tarpaulins                                                |
| K545 | Metal Containers                                                                          |
| K546 | Test, Measurement and Diagnostic Equipment                                                |
| K547 | Other Test, Measurement and Diagnostic Equipment                                          |
| K548 | Aeronautical Support Equipment                                                            |
| K999 | Other Depot Repair, Maintenance, Modification, Conversion or Overhaul of Equipment        |
|      | <b>P—Base Maintenance/Multifunction Contracts</b>                                         |
| P100 | Installation Operation Contracts (Multi-function)                                         |
|      | <b>R—Research, Development, Test, and Evaluation (RDT&amp;E) Support</b>                  |
| R660 | RDT&E Support                                                                             |
|      | <b>S—Installation Services</b>                                                            |
| S700 | Natural Resource Services                                                                 |
| S701 | Advertising and Public Relations                                                          |
| S702 | Financial and Payroll Services                                                            |
| S703 | Debt Collection                                                                           |
| S706 | Bus Services                                                                              |
| S708 | Laundry and Dry Cleaning                                                                  |
| S709 | Custodial Services                                                                        |
| S710 | Pest Management                                                                           |
| S712 | Refuse Collection and Disposal Services                                                   |
| S713 | Food Services                                                                             |
| S714 | Furniture Repair                                                                          |
| S715 | Office Equipment Maintenance and Repair                                                   |
| S716 | Motor Vehicle Operation                                                                   |
| S717 | Motor Vehicle Maintenance                                                                 |
| S718 | Fire Prevention and Protection                                                            |
| S719 | Military Clothing                                                                         |
| S724 | Guard Service                                                                             |
| S725 | Electrical Plants and Systems Operation and Maintenance                                   |
| S726 | Heating Plants and Systems Operation and Maintenance                                      |
| S727 | Water Plants and Systems Operation and Maintenance                                        |
| S728 | Sewage and Waste Plants Operation and Maintenance                                         |
| S729 | Air Conditioning and Refrigeration Plants                                                 |
| S730 | Other Utilities Operation and Maintenance                                                 |
| S731 | Supply Operations                                                                         |
| S732 | Warehousing and Distribution of Publications                                              |
| S740 | Transportation Management Services                                                        |
| S750 | Museum Operations                                                                         |
| S760 | Contractor-Operated Parts Stores & Civil Engineering Supply Stores                        |

**A-76 Commercial Activation Functional Codes—Continued**

|      |                                                                    |
|------|--------------------------------------------------------------------|
| S999 | Other Installation Services                                        |
|      | <b>T—Other NonManufacturing Operations</b>                         |
| T800 | Ocean Terminal Operations                                          |
| T801 | Storage and Warehousing                                            |
| T802 | Cataloging                                                         |
| T803 | Acceptance Testing                                                 |
| T804 | Architect-Engineering                                              |
| T805 | Operation of Bulk Liquid Storage                                   |
| T806 | Printing and Reproduction                                          |
| T807 | Visual Information                                                 |
| T808 | Mapping and Charting                                               |
| T809 | Administrative Telephone Services                                  |
| T810 | Air Transportation Services                                        |
| T811 | Water Transportation Services                                      |
| T812 | Rail Transportation Services                                       |
| T813 | Engineering and Technical Services                                 |
| T814 | Aircraft Fueling Services                                          |
| T815 | Scrap Metal Operation                                              |
| T816 | Telecommunication Centers                                          |
| T817 | Other Communications and Electronics Systems                       |
| T818 | Systems Engineering and Installation of Communications Systems     |
| T819 | Preparation and Disposal of Excess and Surplus Property            |
| T820 | Administrative Support Services                                    |
| T821 | Special Studies and Analysis                                       |
| T900 | Training Aids, Devices, and Simulator Support                      |
| T999 | Other NonManufacturing Operations                                  |
|      | <b>U—Education and Training</b>                                    |
| U100 | Recruit Training                                                   |
| U200 | Officer Acquisition Training                                       |
| U300 | Specialized Skill Training                                         |
| U400 | Flight Training                                                    |
| U500 | Professional Development Training                                  |
| U510 | Professional Military Education                                    |
| U520 | Graduate Education, Fully Funded, Full-time                        |
| U530 | Other Full-time Education Programs                                 |
| U540 | Off-Duty (Voluntary) and On-Duty Education Programs                |
| U600 | Civilian Education and Training                                    |
| U700 | Dependent Education                                                |
| U800 | Training Development and Support                                   |
| U999 | Other Training Functions                                           |
|      | <b>W—Automatic Data Processing</b>                                 |
| W824 | Data Processing Services                                           |
| W825 | Maintenance of ADP Equipment                                       |
| W826 | Systems Design, Development and Programming Services               |
| W827 | Software Services                                                  |
| W999 | Other ADP Functions                                                |
|      | <b>X—Products Manufactured and Fabricated In-House</b>             |
| X931 | Ordnance Equipment                                                 |
| X932 | Products Made From Fabric or Similar Materials                     |
| X933 | Container Products and Related Items                               |
| X934 | Preparation of Food and Bakery Products                            |
| X935 | Liquid, Gaseous and Chemical Products                              |
| X936 | Rope, Cordage, and Twine Products; Chains and Metal Cable Products |

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**A-76 Commercial Activation Functional Codes—Continued**

|                                                                                   |                                                                                |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| X937                                                                              | Logging and Lumber Products                                                    |
| X938                                                                              | Communications and Electronic Products                                         |
| X939                                                                              | Construction Products                                                          |
| X940                                                                              | Rubber and Plastic Products                                                    |
| X941                                                                              | Optical and Related Products                                                   |
| X942                                                                              | Sheet Metal Products                                                           |
| X943                                                                              | Foundry Products                                                               |
| X944                                                                              | Machined Parts                                                                 |
| X999                                                                              | Other Products Manufactured and Fabricated In-House                            |
| <b>Z—Maintenance, Repair, Alteration, and Minor Construction of Real Property</b> |                                                                                |
| Z991                                                                              | Maintenance and Repair of Family Housing Buildings and Structures              |
| Z992                                                                              | Maintenance and Repair of Buildings and Structures Other Than Family Housing   |
| Z993                                                                              | Maintenance and Repair of Grounds and Surfaced Areas                           |
| Z997                                                                              | Maintenance and Repair of Railroad Facilities                                  |
| Z998                                                                              | Maintenance and Repair of Waterways                                            |
| Z999                                                                              | Other Maintenance, Repair, Alteration, and Minor Construction of Real Property |

## APPENDIX 3

## Useful Life and Disposal Value

The attached useful life and disposal values are estimated by the Defense Logistics Agency. The disposal value factor, as a percent of acquisition cost, is based upon the rate of return.

Useful Life \* and Disposal Value Table

| FSC No. | Nomenclature                                                                        | Expected Useful Life (Years) | Disposal Value Factor as a Percent of Acquisition Cost |
|---------|-------------------------------------------------------------------------------------|------------------------------|--------------------------------------------------------|
|         | Guns, through 30mm                                                                  | 15                           | 3.15                                                   |
|         | Guns, over 30mm up to 75mm                                                          |                              | 1.18                                                   |
|         | Guns, 75mm through 125mm                                                            | 25                           | 0.63                                                   |
|         | Guns, over 125mm through 200mm                                                      |                              | 2.14                                                   |
|         | Guns, over 200mm through 300mm                                                      |                              | 2.61                                                   |
| 1040    | Chemical Weapons and Equipment                                                      | 16                           |                                                        |
|         | Launchers, Rocket and Pyrotechnic                                                   | 15                           | 2.00                                                   |
| 1080    | Camouflage and Deception Equipment                                                  | 10                           | 1.75                                                   |
| 1090    | Assemblies Interchangeable between Weapons in Two or More Classes                   | 25                           | 2.25                                                   |
| 1095    | Misc. Weapons                                                                       |                              | 1.06                                                   |
| 1135    | Fusing and Firing Devices Nuclear Ordnance                                          | 16                           | 0.08                                                   |
| 1190    | Specialized Test and Handling Equipment, Nuclear Ordnance                           | 8                            | 0.60                                                   |
| 1220    | Fire Control Computing Sights and Devices                                           | 8                            | 0.29                                                   |
| 1230    | Fire Control System, Complete                                                       | 11                           |                                                        |
| 1240    | Optical Sighting and Ranging Equipment                                              | 11                           | 1.80                                                   |
| 1250    | Fire Control Stabilizing Mechanisms                                                 | 11                           | 1.76                                                   |
| 1260    | Fire Control Designating and Indicating Equipment                                   | 12                           | 0.58                                                   |
| 1265    | Fire Control Transmitting and Receiving Equipment, except Airborne                  | 11                           | 0.39                                                   |
| 1270    | Aircraft Gunnery Fire Control Components                                            |                              | 0.22                                                   |
| 1285    | Fire Control Radar Equipment, except Airborne                                       |                              | 1.19                                                   |
| 1290    | Misc. Fire Control Equipment                                                        | 19                           | 0.79                                                   |
| 1340    | Rockets, Rocket Ammo and Rocket Components                                          | 18                           | 3.62                                                   |
| 1375    | Demolition Materials                                                                |                              |                                                        |
| 1377    | Cartridge and Propellant Activated Devices and Components                           |                              | 1.28                                                   |
| 1398    | Specialized Ammo Handling and Servicing Equipment                                   | 12                           | 0.52                                                   |
| 1410    | Guided Missiles                                                                     | 19                           | 1.55                                                   |
| 1420    | Guided Missile Components                                                           | 15                           | 0.13                                                   |
| 1430    | Guided Missile Remote Control Systems                                               | 19                           | 0.45                                                   |
| 1440    | Launchers, Guided Missile                                                           | 17                           | 0.66                                                   |
| 2450    | Guided Missile Handling and Servicing Equipment                                     | 27                           | 0.65                                                   |
| 1560    | Airframe Structural Components                                                      | 20                           | 2.48                                                   |
| 1610    | Aircraft Propellers                                                                 | 10                           | 4.58                                                   |
| 1615    | Helicopter Rotor Blades, Drive Mechanisms and Components                            | 10                           | 3.52                                                   |
| 1620    | Aircraft Landing Gear Components                                                    | 10                           | 2.71                                                   |
| 1630    | Aircraft Wheel and Brake Systems                                                    | 10                           | 4.92                                                   |
| 1650    | Aircraft Hydraulic, Vacuum and De-icing System Components                           | 10                           | 2.19                                                   |
| 1660    | Aircraft Air Conditioning, Heating and Pressurizing Equipment                       | 10                           | 2.23                                                   |
| 1670    | Parachutes; Aerial Pick Up, Delivery, Recovery Systems and Cargo Tie Down Equipment | 7                            | 5.52                                                   |
| 1680    | Misc. Aircraft Accessories and Components                                           | 7                            | 1.92                                                   |
| 1720    | Aircraft Launching Equipment                                                        | 25                           | 1.91                                                   |
| 1730    | Aircraft Ground Servicing Equipment                                                 | 20                           | 3.12                                                   |
| 1740    | Airfield Specialized Trucks and Trailers                                            | 6.37                         |                                                        |
| 1905    | Combat Ships and Landing Vessels                                                    | 20                           | 2.53                                                   |

Useful Life \* and Disposal Value Table—Continued

| FSC No. | Nomenclature                                                  | Expected Useful Life (Years) | Disposal Value Factor as a Percent of Acquisition Cost |
|---------|---------------------------------------------------------------|------------------------------|--------------------------------------------------------|
| 1915    | Cargo and Tanker Vessels                                      | 30                           | 8.54                                                   |
| 1925    | Special Service Vessels                                       | 25                           | 8.54                                                   |
| 1930    | Barges and Lighters, Cargo                                    | 27                           | 11.05                                                  |
| 1935    | Barges and Lighters, Special Purpose                          | 30                           | 19.83                                                  |
| 1940    | Small Craft                                                   | 23                           | 6.35                                                   |
| 1945    | Pontoons and Floating Docks                                   | 30                           | 14.42                                                  |
| 1990    | Misc. Vessels                                                 |                              | 8.74                                                   |
| 2010    | Ship and Boat Propulsion Components                           | 20                           | 10.26                                                  |
| 2030    | Deck Machinery                                                |                              | 3.31                                                   |
| 2040    | Marine Hardware and Hull Items                                | 20                           | 16.57                                                  |
| 2050    | Buoys                                                         |                              | 11.05                                                  |
| 2090    | Misc. Ship and Marine Equipment                               |                              | 4.81                                                   |
| 2210    | Locomotives                                                   | 29                           | 16.51                                                  |
| 2220    | Rail Cars                                                     | 40                           | 10.27                                                  |
| 2230    | Right-of-Way Construction and Maintenance Equipment, Railroad | 20                           | 18.69                                                  |
| 2240    | Locomotive and Rail Car Accessories and Components            |                              | 9.98                                                   |
| 2250    | Track Materials, Railroad                                     |                              | 41.00                                                  |
| 2305    | Ground Effect Vehicles                                        | 15                           |                                                        |
| 2310    | Passenger Motor Vehicles                                      | *                            | 17.00                                                  |
|         | Passenger Cars and Station Wagons                             | 6                            |                                                        |
|         | Buses (11 or more passengers)                                 | 8                            |                                                        |
|         | Ambulances                                                    | 7                            |                                                        |
| 2320    | Trucks and Truck Tractors, Wheeled                            | *                            | 17.96                                                  |
|         | Less than 12,500 (payload 1 ton and less)                     | 6                            |                                                        |
|         | 12,500 through 16,999 (payload, 1½ through 2½ tons)           | 7                            |                                                        |
|         | 17,000 and over (payload, tons and (over)                     | 9                            |                                                        |
|         | Multiple Drive Vehicles                                       | 6                            |                                                        |
| 2330    | Trailers                                                      | 23                           | 10.09                                                  |
| 2340    | Motorcycles, Motor Scooters and Bicycles                      | 12                           | 27.31                                                  |
| 2350    | Combat, Assault and Tactical Vehicles, Tracked                | 14                           | 32.82                                                  |
| 2410    | Tractors, Full Track, Low Speed                               | 14                           | 27.62                                                  |
| 2420    | Tractors, Wheeled                                             | 13                           | 22.70                                                  |
| 2430    | Tractors, Track Laying High Speed                             |                              | 7.42                                                   |
| 2510    | Vehicular Cab, Body and Frame Structural Components           | 10                           | 14.18                                                  |
| 2520    | Vehicular Power Transmission Components                       | 12                           | 16.22                                                  |
| 2530    | Vehicular Brake, Steering, Axle, Wheel and Track Components   | 12                           | 12.17                                                  |
| 2540    | Vehicular Furniture and Accessories                           | 18                           | 6.95                                                   |
| 2590    | Misc. Vehicular Components                                    | 10                           | 7.04                                                   |
| 2805    | Gasoline Reciprocating Engines except Aircraft and Components | 7                            | 5.68                                                   |
| 2810    | Gasoline Reciprocating Engines, Aircraft and Components       |                              | 3.43                                                   |
| 2815    | Diesel Engines and Components                                 |                              | 13.33                                                  |
| 2835    | Gas Turbines and Jet Engines, except Aircraft and Components  | 15                           | 3.59                                                   |
| 2840    | Gas Turbines and Jet Engines, Aircraft, and Components        |                              | 1.77                                                   |
| 2845    | Rocket Engines and Components                                 |                              | 0.11                                                   |
| 2910    | Engine Fuel System Components, Nonaircraft                    |                              | 8.01                                                   |
| 2915    | Engine Fuel System Components, Aircraft                       |                              | 3.01                                                   |
| 2920    | Engine Electrical System Components, Nonaircraft              |                              | 10.32                                                  |
| 2925    | Engine Electrical System Components, Aircraft                 |                              | 7.94                                                   |
| 2930    | Engine Cooling System Components, Nonaircraft                 |                              | 21.96                                                  |
| 2935    | Engine Cooling System Components, Aircraft                    |                              | 7.41                                                   |
| 2945    | Engine Air and Oil Filters, Strainers and Cleaners, Aircraft  |                              | 1.71                                                   |
| 2950    | Turbosuperchargers                                            |                              | 8.26                                                   |
| 2990    | Misc. Engine Accessories, Nonaircraft                         |                              | 7.77                                                   |
| 2995    | Misc. Engine Accessories, Aircraft                            |                              | 4.10                                                   |

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