

# ***COMPETITIVE SOURCING***

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## **Report on Competitive Sourcing Results Fiscal Year 2005**



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*Executive Office of the President  
Office of Management and Budget*

## Table of Contents

Executive Summary .....	1
Introduction .....	3
Part I. FY 2005 activities and three-year trends .....	3
A. Use of competition.....	3
1. Level of competition .....	3
2. Activities competed.....	9
3. Level of participation .....	11
4. Length of competition.....	12
5. Provider of service .....	12
B. Savings.....	14
1. Promising trends.....	15
2. Accountability for results.....	16
3. Reporting on actual savings .....	18
4. Legislative restraints .....	19
Part II. Best value tradeoffs in competitive sourcing .....	21
A. Background.....	21
B. Findings.....	22
C. Conclusions.....	24
Part III. Appendices .....	25

## List of Tables, Figures, and Appendices

### Tables

Table 1.	FTEs involved in competitions completed or announced in FY 2005 .....	4
Table 2.	Improvements facilitated by competitions completed in FY 2005 by civilian agencies.....	5
Table 3.	Improvements facilitated by competitions completed in FY 2005 by DOD .....	8
Table 4.	Popular activities for competition: FY 2004 vs. FY 2005 .....	10
Table 5.	Level of competition and associated annual net savings per FTE in FYs 2004 and 2005 .....	11
Table 6.	Average length of competitions completed in FY 2005 .....	12
Table 7.	Estimated savings from completed competitions: FYs 2003-2005 .....	14
Table 8.	Promising trends in competitive sourcing .....	16
Table 9.	Sources used to validate results .....	18
Table 10.	Statutory constraints on the use of competitive sourcing .....	20
Table 11.	Comparing results: best value “tradeoff” vs. cost-only standard competitions .....	22

### Figures

Figure 1.	Activities competed most frequently in FYs 2004 & 2005 .....	10
Figure 2.	Popular activities for competition and associated annualized gross savings per FTE .	15

### Appendices

Appendix A-1.	Competitions Completed in FY 2005 .....	28
Appendix A-2.	Competitions Announced in FY 2005 .....	29
Appendix B.	Planned Competitions for FY 2006 .....	30
Appendix C-1.	Types of Activities Competed or Announced in FY 2005 .....	31
Appendix C-2.	Activities Most Frequently Competed by Agency .....	32
Appendix D.	Performance Decisions .....	33
Appendix E.	Incremental Cost of Conducting Competition .....	34
Appendix F.	Fixed Costs .....	35
Appendix G.	Estimated Savings for Completed Streamlined & Standard Competitions .....	36
Appendix H.	FY 2005 competitions exceeding the 3-year average annual FTE savings level .....	37

## Executive Summary

This report discusses the use of competitive sourcing (i.e., public-private competition) in FY 2005 by agencies tracked under the President's Management Agenda (PMA). The report also analyzes trends over the three-year period that the Office of Management and Budget (OMB) has prepared annual reports on competitive sourcing activities. This report is based on data collected by the PMA agencies. Key results are described below.

### FY 2005

- ***Nearly 10,000 FTEs competed.*** Agencies completed 181 competitions involving the commercial workload of 9,979 full-time-equivalent employees (FTEs). Competitions were conducted for a wide-range of commercial activities, with the greatest focus placed on logistics, maintenance and property management, information technology, finance and accounting, and human resources.
- ***Projected savings highest of the three years competition results tracked.*** Improvements set in motion by competitions completed in FY 2005 are expected to generate net savings or cost avoidances totaling \$3.1 billion over the next 5-10 years.
- ***Largest public-private competition ever undertaken by a federal agency successfully completed.*** The Federal Aviation Administration (FAA) completed the competition of its automated flight service stations. This *best value tradeoff* competition, which took into careful consideration both the cost *and* quality of future performance, has laid the groundwork for FAA to modernize flight services provided to general aviation pilots and will save taxpayers \$2.2 billion.

### FYs 2003 - 2005

- ***More than 40,000 FTEs competed.*** Over the past 3 fiscal years, agencies have conducted 1,060 competitions (250 standard competitions and 810 streamlined competitions) involving a total of 40,147 FTEs, which represents approximately 11% of the commercial activities identified as suitable for competition by agencies in their workforce inventories.
- ***Competitions accelerate pace of needed improvements.*** Savings and performance improvements are being generated from process reengineering, workforce realignments, better leveraging of technology, and operational consolidations. Savings are also being derived as in-house providers renegotiate contracts with their private sector partners to reduce the cost of operational support.
- ***Cumulative savings projected to exceed \$5.5 billion.*** Competitions completed in FYs 2003-2005 are estimated to save taxpayers \$5.6 billion. The majority of these savings are expected to be realized over the next 3-5 years. Annualized expected savings are approaching \$1 billion. Savings will continue to grow as more competitions are completed and cost control and performance efficiencies are brought to bear on a larger number of our daily tasks.
- ***High returns on investment.*** One time, out-of-pocket expenses for competitions completed in FYs 2003-2005 were \$211 million. This means our taxpayers will receive about \$27 for every dollar spent on competition.
- ***Best value tradeoffs produce significant savings.*** The average expected net savings per FTE competed over the last 3 years is \$23,000. Best value tradeoff competitions – i.e., where both cost and quality (as opposed to just cost alone) are taken into account in selecting a provider – have produced expected savings of \$68,000 per FTE, which is three times the average expected net savings

from all competitions. Best value tradeoff competitions account for 70% of the total estimated net savings reported over the last 2 fiscal years, when agencies first started using the authority.<sup>1</sup>

- ***Federal employees fare well in competitions.*** Federal employees have been selected to perform 83 percent of the work competed over the past 3 fiscal years. This statistic indicates that employees are taking advantage of the opportunity afforded them during competition to eliminate operational inefficiencies and create most efficient organizations (MEOs).
- ***Agencies taking steps to validate results.*** COMPARE, the software agencies use to calculate costs and document performance decisions in public-private competitions conducted under OMB Circular A-76, now includes a feature to improve consistency and transparency in calculating baselines.<sup>2</sup> In addition, a number of agencies have established processes to independently validate results, including cost savings, and more will do so over the coming year.

### Competitive Sourcing at a Glance Investments and Results: FYs 2003-2005

#### Cumulative results

Factor	Three-Year Total*
FTE competed	40,147
Number of competitions conducted	1,060
FTE competed under standard competitions	32,176
Incremental cost	\$210 million
Estimated net savings	\$5.6 billion
Estimated annualized savings	\$900 million

\*Dollar figures are rounded to nearest \$10 million

#### Three-year average

Factor	Three-Year Average*
FTE per competition	38
Work competed through standard competitions (as a percentage of total FTEs competed)	80%**
Incremental cost of a competition per FTE competed	\$5,000
Net annual savings per FTE competed	\$23,000
Competitions where federal agency selected to perform work (as a percentage of total FTEs competed)	83%

\*Dollar figures are rounded to nearest thousand.

\*\*Standard competitions require head-to-head competition between the public and private sectors and the development of an MEO staffing plan by the federal incumbent provider.

<sup>1</sup> This report includes a summary discussion on the use of best value tradeoffs in public-private competition. For additional information, see COMPETITIVE SOURCING: *Report on the Use of Best Value Tradeoffs in Public-Private Competitions* (April 2006), available at [www.whitehouse.gov/omb/procurement/index\\_comp\\_sourcing.html](http://www.whitehouse.gov/omb/procurement/index_comp_sourcing.html).

<sup>2</sup> The COMPARE software is maintained by the Department of Defense on behalf of OMB.

## Introduction

Section 647(b) of the Transportation, Treasury, and Independent Agencies Appropriations Act, FY 2004 (Division F of the Consolidated Appropriations Act, P.L. 108-199) establishes a government-wide reporting requirement for competitive sourcing. Consistent with Section 647(b), each executive agency must annually inform Congress about its competitive sourcing efforts for the prior fiscal year.<sup>3</sup>

Section 647 requires reporting on: the number of competitions; the number of federal employees included in completed competitions; incremental costs; savings; the number of federal employees to be studied in the coming fiscal year; and how the agency aligns competitive sourcing decisions with its strategic workforce plan. OMB has developed this summary report to synthesize the information captured individually by agencies tracked under the PMA and to facilitate greater transparency. This is OMB's *third annual report* on competitive sourcing.<sup>4</sup>

The information in this report is based on data collected by the PMA agencies in accordance with OMB Memorandum M-06-01, *Report to Congress on FY 2005 Competitive Sourcing Efforts* (October 7, 2005), available at [www.omb.gov](http://www.omb.gov). OMB's guidance is intended to ensure consistent and clear agency reporting. It provides a standard reporting format and describes how agencies should calculate savings and costs, including the incremental cost of a specific competition and the fixed costs associated with overseeing an agency's competitive sourcing efforts.

This year's report is divided into three parts. Part I highlights significant results from FY 2005 competitions and discusses three-year averages. Part II addresses the use of best value "tradeoffs" in public-private competitions and the ability of agencies to obtain value for the taxpayer, both in terms of cost and quality, in light of recent statutory changes restricting the use of tradeoffs. Part III of the report provides appendices with consolidated data from each of the PMA agency reports.

## Part I. FY 2005 activities and three-year trends

### A. Use of competition

**1. Level of competition. Over the past 3 fiscal years, agencies have completed competitions involving approximately 11% of the commercial activities identified as suitable for competition in their workforce inventories.**<sup>5</sup> In FY 2005, agencies completed 181 competitions covering 9,979 FTEs and announced an additional 92 competitions with 4,876 FTEs that were ongoing at the end of the fiscal year. See Table 1. When added to actions taken in FYs 2003 and 2004, agencies have now competed over 40,000 FTEs through more than 1,000 competitions.

<sup>3</sup> Copies of each President's Management Agenda (PMA) agency's report are available at [www.results.gov](http://www.results.gov).

<sup>4</sup> For a discussion on FY 2004 results, see COMPETITIVE SOURCING: Report on Competitive Sourcing Results, Fiscal Year 2004 (May 2005) at <http://www.whitehouse.gov/results/agenda/fy04-analysis-cs-050608.pdf>. Fiscal year 2003 results are addressed in COMPETITIVE SOURCING: Report on Competitive Sourcing Results, Fiscal Year 2003 (May 2004), available at [www.whitehouse.gov/results/agenda/cs\\_omb\\_647\\_report\\_final.pdf](http://www.whitehouse.gov/results/agenda/cs_omb_647_report_final.pdf)

<sup>5</sup> According to the 2004 FAIR Act inventories of agencies tracked by the PMA, there were approximately 370,000 FTEs identified as suitable for competition.

**Table 1. FTEs involved in competitions completed or announced in FY 2005**

<b>Agency</b>	<b>FTEs in Completed Competitions<sup>a,b</sup></b>	<b>FTEs in Announced Competitions<sup>c</sup></b>	<b>Total</b>
Agriculture	270	0	270
Commerce	0	0	0
Defense	2,500	1,301	3,801
Education	30	0	30
Energy	642	72	714
EPA	52	39	90
HHS	955	371	1,326
Homeland	137	74	211
HUD	14	0	14
Interior	84	899	983
Justice	58	127	185
Labor	125	187	312
State	98	237	335
DOT	2,423	8	2,431
Treasury	1,186	160	1,346
VA	0	0	0
AID	0	0	0
Corps	0	80	80
GSA	125	36	161
NASA	852	1,108	1,960
NSF	0	22	22
OMB	1	0	1
OPM	225	15	240
SBA	152	140	292
Smithsonian	0	0	0
SSA	51	3	54
<b>GOVERNMENTWIDE<sup>d</sup></b>	<b>9,979</b>	<b>4,876</b>	<b>14,855</b>

a. Includes competitions completed in FY 2005 irrespective of when they were initiated.

b. Includes streamlined and standard competitions under the revised Circular – including competitions conducted under deviations – and cost comparisons conducted by DOD under the prior version of the Circular.

c. Includes competitions announced but not completed in FY 2005, including competitions conducted under deviations.

d. Governmentwide FTE numbers reflect the actual total FTEs competed, and may not match the sum of the rounded agency totals in each column.

**i. Growth of competitive sourcing as a management tool at civilian agencies. Civilian agencies are using public-private competitions to bring greater efficiency and effectiveness to a wide range of commercial operations that support their varied missions. See Table 2.**

**Table 2. Improvements facilitated by competitions completed in FY 2005 by civilian agencies**

<b>Management Objective</b>	<b>Cost-Saving Changes and Other Improvements Facilitated by Competition</b>	<b>Estimated Savings</b>
<b>FAA (DOT):</b> Modernize Automated Flight Service Stations	<ul style="list-style-type: none"> <li>• Consolidation of stations from 58 to 20.</li> <li>• Modernization of facilities and technologies.</li> </ul>	\$2.2 billion Over 10+ years
<b>NASA:</b> Eliminate redundant investments in shared services	<ul style="list-style-type: none"> <li>• Consolidation of HR, procurement, financial management &amp; IT transactional activities from 10 centers into 1 center.</li> <li>• Leveraging of technology.</li> <li>• Process reengineering.</li> </ul>	\$42 million over 10 years
<b>SBA:</b> Improve disaster loan verification program	<ul style="list-style-type: none"> <li>• Increased customer service levels.</li> <li>• Realignment of workforce &amp; reduction in labor costs.</li> <li>• Leveraging of technology.</li> <li>• Consolidation &amp; centralization of verification services mgmt.</li> </ul>	\$30 million over 5 years
<b>Centers for Disease Control (HHS):</b> Reduce cost of editorial support services	<ul style="list-style-type: none"> <li>• Process reengineering.</li> <li>• Realignment of workforce.</li> </ul>	\$21+ million Over 5 years
<b>Program Support Center (HHS):</b> Improve IT support	<ul style="list-style-type: none"> <li>• Restructured customer-focused processes.</li> <li>• Leveraging of technology.</li> </ul>	\$14.5+ million over 5 years
<b>OPM:</b> Obtain administrative support more cost-effectively	<ul style="list-style-type: none"> <li>• Consolidation of staffing responsible for meeting clerical, technical and administrative work requirements.</li> </ul>	\$13 million Over 5 years
<b>Coast Guard (DHS):</b> Make public works support more effective & efficient	<ul style="list-style-type: none"> <li>• Streamlining of work order process &amp; reporting.</li> <li>• Achieve administrative efficiencies.</li> <li>• Clear, customer-focused performance standards.</li> </ul>	\$7.5 + million Over 5 years
<b>Employment &amp; Training Administration (DOL):</b> Improve delivery of financial support	<ul style="list-style-type: none"> <li>• Consolidation of accounts payable operations.</li> <li>• Leveraging of technology.</li> <li>• Reduction of labor dedicated to payment processing/restructuring of job mix.</li> <li>• Customer-focused performance standards.</li> </ul>	\$5 million Over 5 years
<b>EPA:</b> Improve vendor payment process	<ul style="list-style-type: none"> <li>• Consolidation of accounts payable operations.</li> <li>• Leveraging of technology.</li> <li>• Increase in percentage of automated clearinghouse direct deposit payments.</li> <li>• Improved controls to prevent erroneous payments and make timely payments.</li> </ul>	\$3.5 million Over 5+ years

Since FY 2003, when OMB revised Circular A-76 to enhance the value of competitive sourcing as a management tool, all but one of the 24 civilian member agencies of the President's Management Council (PMC) have announced or completed public-private competitions.<sup>6</sup>

<sup>6</sup> See Table 1 for a list of the PMC agencies tracked under the PMA. For purposes of this analysis, the Corps of Engineers is considered a Defense agency because its reporting is consolidated with reporting by the Department of Defense. One of the 24 agencies that has announced or completed competitions, the Agency for International



Twenty-one of the civilian PMC agencies completed or announced competitions involving 100 or more FTEs during at least one of these three fiscal years. FAA, in February 2005, completed a competition for flight services performed by 2,300 FTEs, making it the largest public-private competition ever conducted by a federal agency. In all, competitions conducted by civilian PMC agencies during this three-year period involved just over 22,000 FTEs of the 40,000+ FTEs competed governmentwide.

Civilian agency competitions completed in FY 2005 include the following:

- **FAA** is dramatically improving the delivery of flight services – such as pre-flight weather briefings and flight planning – to general aviation pilots, and saving taxpayers \$2.2 billion. Public-private competition allowed FAA to select a provider who will replace antiquated systems and labor intensive processes with state-of-the art technology, modern facilities, and high-quality customer service. *FAA estimates that the proposal developed by the selected provider, a private sector contractor, will save taxpayers almost \$200 million above and beyond the government’s proposed most efficient organization.*
- **NASA** used public-private competition to fulfill a priority management objective: the elimination of redundant systems and processes used by its individual centers to carry out identical transactional activities related to human resources, procurement, financial management, and information technology. Through competition, NASA identified the provider that could best help NASA achieve the successful consolidation of these activities, currently performed at ten centers, into one shared services center. NASA projects that changes resulting from the competition will improve efficiency and reduce the cost of internal support operations by more than \$40 million over 10 years.
- **The Small Business Administration (SBA)** used public-private competition to help improve its disaster loan verification program. The Disaster Assistance program provides low interest loans to homeowners, renters, and businesses following disasters. Damage claims are verified to prevent processing of fraudulent applications. Over a five-year period, SBA estimates that the MEO, which was selected to perform loss verification services, will save the agency about \$30 million. SBA expects increased production, lower operating costs, and centralization of verification services management.
- **The Environmental Protection Agency (EPA)** completed its first standard competition to improve its vendor payment process. EPA expects the consolidation of its accounts payable operations to improve the timeliness of its payments to vendors, increase its percentage of automated clearinghouse direct deposit payments, strengthen its ability to prevent erroneous payments, and lower the cost of related support services such as auditing. Savings are estimated at \$3.5 million over 5 years.
- **The Departments of Labor (DOL) and Housing and Urban Development (HUD)** also conducted competitions involving financial operations. Public-private competition is helping the Employment and Training Administration to optimize accounts payable processes by leveraging technology. HUD expects to reduce the cost of its financial management systems compliance review function.

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Development, announced its first competition in December 2005. The balance of the 24 agencies announced and/or completed competitions between FYs 2003 and 2005.

A number of in-process competitions also promise to strengthen a variety of agency operations:

- **The Department of Interior (DOI)** recently announced seven competitions covering a range of commercial support activities where competition may facilitate the closing of skills gaps and enable the redeployment of resources to higher program priorities. These activities include: road maintenance, vocational job corps training, administrative/clerical, hydrological data collection and mapping and charting.<sup>7</sup> DOI reports that efforts to successfully identify appropriate activities for competition have been helped by continuous improvements to its workforce inventory and increased involvement by its human resources and human capital advisors.
- **The Department of Justice** intends to see improved efficiencies in its Office of Justice Programs (OJP) and Justice Management Division (JMD). In FY 2006, OJP will complete a standard competition for grants management support services.<sup>8</sup> Activities being competed include support for pre-award planning, grant application processing, post-award processing, and grant closeout. This past September, JMD's Office of the Chief Information Officer announced a standard competition to improve the operation of a variety of IT support services, including system design and engineering support, network and mainframe and server administration, data center operations, and help desk services.
- **The State Department** is in the process of competing its multimedia services. Through competition, State expects to receive innovative proposals from public and private sector providers alike to modernize how copying, printing, and publication services are delivered to State customers world-wide.
- **The National Science Foundation** announced its first public-private competition in the summer of 2005 to strengthen technical and administrative support services within its Office of Budget, Finance & Award Management. The competition was specifically tailored to address a concern identified in its 2004 Financial Statement Audit Report calling for dedicated resources to improve post-award monitoring of grant, contract, and cooperative agreement activities.

During this past year, the competitive sourcing office in the Department of Commerce (DOC) has: (i) analyzed the Department's workforce inventory and worked with bureaus to identify candidates for competition and (ii) presented business case analyses to its internal CFO Council to help set priorities for competition based on potential return on investment, alignment with the Department's human capital plan, and the adequacy of private sector sources to perform work. DOC expects to announce competitions later this year.

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<sup>7</sup> These competitions were announced in the first quarter of FY 2006 and will be reported in DOI's FY 2006 report to Congress on its competitive sourcing activities.

<sup>8</sup> This competition was announced in FY 2004. The announcement was reported in DOJ's report on FY 2004 activities. The performance decision will be reported in DOJ's FY 2006 report to Congress on competitive sourcing.

ii. *Continued use of competitive sourcing at the Department of Defense. Over the past three fiscal years, DOD completed competitions, involving approximately 18,000 FTEs, that are helping the Department achieve cost avoidances and refocus its resources on core defense activities.* Some of the improvements enabled by competitions completed in FY 2005 are described in Table 3.

**Table 3. Improvements facilitated by competitions completed in FY 2005 by DOD**

<b>Management Objective</b>	<b>Cost-Saving Changes and Other Improvements Facilitated by Competition</b>	<b>Estimated Savings</b>
<b>Navy:</b> Reduce cost of building maintenance & repair	<ul style="list-style-type: none"> <li>• Reengineering and leveraged technology.</li> <li>• Reduction in size of organization.</li> </ul>	\$71 million over 5 years
<b>Defense Logistics Agency:</b> Re-engineer warehousing operations	<ul style="list-style-type: none"> <li>• Consolidation of warehouses – from 68 to 18 – to achieve more efficient use of resources (e.g., savings in facility, equipment, and labor costs).</li> </ul>	\$46+ million over 5 years
<b>Marine Corps:</b> Make motor vehicle operations more efficient	<ul style="list-style-type: none"> <li>• Leveraging of contractor’s infrastructure and experience in supporting commercial customers.</li> </ul>	\$14.5+ million over 4+ years
<b>Defense Logistics Agency:</b> Improve distribution operations	<ul style="list-style-type: none"> <li>• Restructuring of workflow to adopt customary commercial practices.</li> <li>• Leveraging of technology.</li> </ul>	\$14 million over 5 years
<b>Marine Corps:</b> Strengthen retail supply operations	<ul style="list-style-type: none"> <li>• Reengineering and consolidation of work processes.</li> </ul>	\$8+ million over 4+ years
<b>Defense Contract Management Agency:</b> Improve cost-effectiveness of IT support operations	<ul style="list-style-type: none"> <li>• Creation of shared services organization to consolidate and leverage resources.</li> <li>• Increased use of remote assistance tools to bring consolidated IT help to multiple locations through the internet and telecommunications services.</li> </ul>	\$5 million over 4+ years

While savings from competitions conducted by DOD over the years is projected to be in the billions of dollars, its pace of new announcements has been lower than anticipated. DOD’s transition to the revised Circular was initially slowed by a statutory moratorium that precluded the Department from using the Circular until it prepared a report for Congress on its implementation plans.<sup>9</sup> In addition, each legislative cycle has brought DOD-unique requirements that have imposed new burdens on management. For example:

- In FY 2005, Congress imposed a health comparability requirement that prohibits DOD from giving an advantage in public-private competitions to a private sector source that either does not offer employee health benefits or pays less towards health benefits that DOD pays for its civilian employees.<sup>10</sup> Since the provision limits the type of health benefits government contractors may offer their employees, the Department faces the prospect of limited participation in future competitions. The Administration has urged the Congress to either eliminate this requirement or, at a minimum, amend the provision to acknowledge the variety of tools contractors use to make health care accessible to their employees, such as health savings and medical savings accounts.

<sup>9</sup> See section 335 of P.L. 108-136.

<sup>10</sup> See section 8014(a)(3) of the FY 2005 Department of Defense (DOD) Appropriations Act, P.L. 108-287.

- This past December, Congress required DOD to establish guidelines for the consideration of insourcing (i.e., where work is converted from private sector to federal agency performance). While insourcing may play a beneficial role in some circumstances, insourcing of highly commercial activities could undermine DOD's efforts to redirect its workforce to higher priority mission critical activities.
- The Energy and Water Development Appropriations Act, FY 2006, (P.L. 109-103) decreases funding for competitive sourcing at the Corps of Engineers, which was planning to announce 2,000 FTEs for competition in FY 2006. And, the FY 2006 Defense Authorization Act excuses the Defense Commissary Agency from competitions through FY 2008.

DOD has identified significant opportunities where competitive sourcing can facilitate the restructuring of support operations so that the Department may redirect its manpower to military activities while lowering operating costs. The Department recognizes that savings opportunities are being lost and intends to increase its use of competition from FY 2005 levels. DOD currently projects about 10,300 FTEs for announcement in FY 2006.<sup>11</sup>

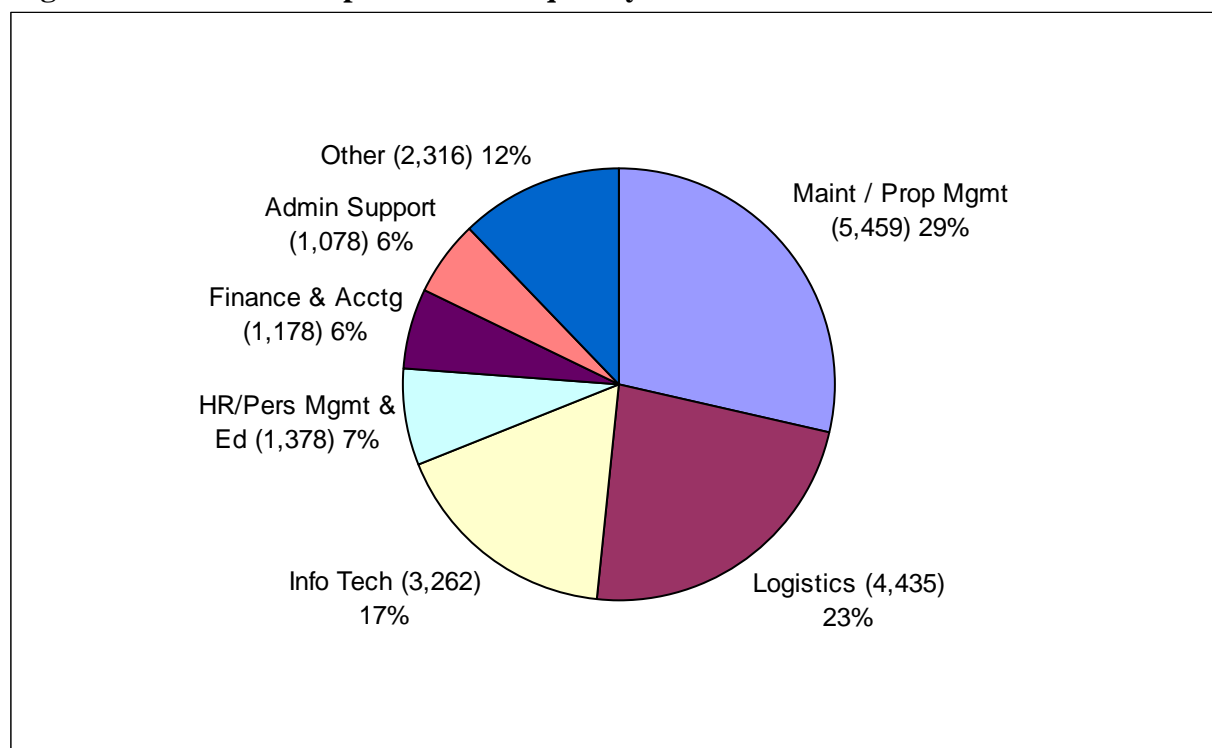
For a complete agency-by-agency breakdown on the numbers of competitions conducted and FTEs covered in FY 2005, see Appendix A (A-1 provides figures on completed competitions and A-2 provides data on announced competitions.) Appendix B lists by agency the number of FTEs in competitions planned for announcement in FY 2006.<sup>12</sup>

**2. Activities competed.**<sup>13</sup> **Agencies are focusing competitions on highly commercial functions that are readily available in the marketplace and suitably performed by contractors (i.e., not activities that mandate the talents of federal employees and in-house performance).** In FY 2004, over 80 percent of the FTEs competed fell within one of the following five categories: (1) maintenance and property management, (2) IT, (3) logistics, (4) human resources, personnel management, and education, or (5) finance and accounting. These activities continued to prove popular subjects for competition, accounting for the majority of the FTEs competed in FY 2005. Figure 1 shows the relative popularity of these activities in competitions completed in FYs 2004 and 2005. Table 4 shows a breakdown by fiscal year. For an-agency-by-agency breakout on types of activities competed or announced see Appendix C-1, identifying activity by function code, and C-2 (identifying the activity most frequently competed by the agency and the associated number of FTEs.

<sup>11</sup> DoD originally planned to announce approximately 11,000 FTEs for competition in FY 2006.

<sup>12</sup> In most cases, FTE projects for competition are estimates that may be subject to adjustment based on the results of agency analyses (e.g., business case analysis, cost-benefit analysis).

<sup>13</sup> Beginning in FY 2004, OMB required agencies to report the function code associated with each activity competed, or the primary code where multiple functions were competed together. Agencies may chose from among 23 function code categories. See [www.whitehouse.gov/omb/procurement/fair/2004function\\_codes.html](http://www.whitehouse.gov/omb/procurement/fair/2004function_codes.html) for a list of function codes. Agencies are required to use these same function codes to identify positions in their commercial and inherently governmental workforce inventories. For purposes of this report, OMB combined two related function code categories: the human resources function code (series "B") was combined with personnel management, education and training code (series "U"). In addition, the maintenance function code (series "S") was combined with the property management code (series "Z"). In addition, OMB treated administrative support as a separate function code. Administrative support is typically included as a sub-function in each of 23 main function codes.

**Figure 1. Activities competed most frequently in FYs 2004 & 2005**

<sup>a</sup> Data does not reflect NASA science competitions, which were conducted pursuant to a deviation, or competitions with no savings data at the time of the compilation of this report..

**Table 4. Popular activities for competition: FY 2004 vs. FY 2005<sup>a</sup>**

Activity	FY 2004 FTE	FY 2005 FTE	Total : FY 04 & 05	
			FTE	%
Maintenance/property management	4,138	1,321	5,459	29
Logistics	1,448	2,987	4,435	23
Information technology	2,207	1,055	3,262	17
HR / personnel management & education	1,209	169	1,378	7
Finance & accounting	968	210	1,178	6
Administrative support	315	763	1,078	6
Other <sup>b</sup>	1,609	708	2,316	12

<sup>a</sup> Data does not reflect NASA science competitions, which were conducted pursuant to a deviation, or competitions with no savings data at the time of the compilation of this report..

<sup>b</sup> Activities in this category include: regulatory and program management support services (1.8%); research, development, test & evaluation (1.2%); depot activities (1.0%); and procurement (3.0%).

**3. Level of participation.**<sup>14</sup> **Private sector participation in competitions increased somewhat in 2005, but efforts will need to continue to ensure consistently robust participation by both sectors.** Two or more private sector offers were received in 63% of the standard competitions conducted in the last fiscal year, compared to 47% in FY 2004. Competitions with two or more private sector offers covered 75% of the FTEs included in competitions completed in FY 2005, compared to 45% in FY 2004. Competitions with no offers declined from 29% in FY 2004 to 11% in FY 2005 (from 24% to 13% as measured by FTEs). Two year weighted averages are shown in Table 5.

**Table 5. Level of competition and associated annual net savings per FTE in FYs 2004 and 2005<sup>a</sup>**

Indicator	Private Sector Offers Received			Total
	2+	1	0	
Standard competitions receiving private sector offers	59 (52%)	28 (25%)	26 (23%)	113 standard competitions
FTEs involved in std. competition with private sector participation	9,146 (56%)	3,883 (24%)	3,179 (20%)	16,208 FTEs

<sup>a</sup>Data does not reflect NASA science competitions, which were conducted pursuant to a deviation, or competitions with no savings data at the time of the compilation of this report.

Practices that have been used to secure public and private sector participation in competitions have been shared with agency competitive sourcing coordinators. OMB will continue working with agencies to ensure their policies and practices create an environment that is conducive to robust participation by both sectors.

#### **Agency Practices for Encouraging a More Competitive Environment**

- Issuing draft statements of work or draft solicitations so potential sources may perform the due diligence necessary to understand the government's requirements;
- Holding public forums to obtain feedback from interested sources and provide opportunities for interested parties to identify potential teaming partners;
- Meeting with interested industry associations to encourage out-reach to their members;
- Establishing dedicated websites for questions and answers from interested parties;
- Consulting with sources if no offers are received to determine if solicitation is vague, confusing, or restrictive;
- Ensuring that the agency tender official has access to sufficient resources to develop a competitive agency tender; and
- Targeting out-reach efforts to the industry top performers identified through market research.

<sup>14</sup> OMB began keeping track of the level of participation in public-private competitions in FY 2004. Agencies now collect data on the number of offers received from private sector contractors and public reimbursable providers in response to a solicitation issued in connection with a standard competition.

**4. Length of competition.** Agencies are generally completing competitions in a timely manner. As shown on Table 6, the average length of time for competitions completed in FY 2005 was 11 months for standard competitions and just under 3 months for streamlined competitions -- about 2½ months for a streamlined competition without an MEO and 3½ months for a streamlined competition with an MEO. These figures reflect the time between the date the agency publicly announced the competition and the date of the performance decision. In a number of cases, agencies have issued time limit waivers, as allowed by the Circular, where the competition is particularly complex. For example, the CSO of the Corps of Engineers issued a waiver to allow additional time for completion of its command-wide IT competition.

**Table 6. Average length of competitions completed in FY 2005\***

Type of Competition	Average Length of Competition (in months)
Streamlined without MEO	2.4
Streamlined with MEO	3.4
Standard	11.0

\* The standard competition figure does not include cost comparisons completed in FY 2005 by DOD under the historic OMB Circular A-76, which did not impose time limits. All other competitions – including standard and streamlined competitions with deviations for time limit extensions – are included.

**5. Provider of service.** Both public and private sector providers received sizable amounts of work in FY 2005 competitions; over the last 3 fiscal years, federal employees have fared especially well – receiving 83% of the work competed, mostly by developing MEO plans to eliminate waste from their operations. In FY 2005, agencies determined that in-house organizations would provide the best service when compared to the private sector for 61 percent of the FTEs competed.<sup>15</sup> Over the last three years, Federal employees were selected to perform 83 percent of the work competed. This figure is well above the historical average of between 50-60 percent<sup>16</sup> and demonstrates that federal employees are being afforded the opportunity to show their continued value to the taxpayer when operating in an MEO.

Agencies continue to make concerted efforts to provide soft landings for affected employees, including reassignment to priority programs within the agency or at another agency, buyouts, early retirements, and priority consideration for employment with the contractor where work has been converted to private sector performance. For IRS this includes working with DOL and their rapid response teams to assist with providing career transition assistance training and support in locating employment within the community for impacted employees. In the case of FAA's competition involving its automated flight service stations, numerous steps were taken to provide a safe landing to its employees. These types of efforts help to minimize the percentage of involuntary separations from public-private competition. A 2004 analysis of the effect of competition on the DOD civilian workforce concluded that of the more than 65,000 civilian positions studied at DOD since 1995, only 5 percent were reduced through the involuntary separation of federal employees.<sup>17</sup>

<sup>15</sup> See Appendix D for the percentage of work to be performed by each sector based on performance decisions made by each PMA agencies.

<sup>16</sup> These figures are derived from data collected by DOD since 1978 tracking the results of its public-private competitions over the years.

<sup>17</sup> See *Competitive Sourcing: What Happens to Federal Employees?* IBM Endowment for the Business of Government (October 2004).

**Steps Taken to Provide a “Safe Landing” to FAA Employees  
Affected in the Automated Flight Service Stations (AFSS) Competition**

- All AFSS employees were offered employment & a hiring bonus by the new private sector service provider.
- FAA placed over 460 affected employees in federal agencies, including over 450 with FAA.
- FAA maintains a selected priority program that gives former AFSS employees preference for all jobs that are open to individuals outside the FAA for which they are qualified.
- Former AFSS employees are being permitted to apply for all positions open only to FAA employees.
- Under special authority provided by Congress, FAA has rehired AFSS employees who are within 2 years of retirement from the date the new provider took over under temporary appointments to work on the transition and initial implementation effort and earn the time needed to reach retirement eligibility.
- Separated employees were entitled to federal severance pay and unemployment compensation.

As a general matter, ongoing efforts to integrate competitive sourcing with human capital planning, as envisioned by the PMA, and related initiatives are helping to ensure agencies consider the strengths and needs of the federal workforce before announcing competitions and throughout the process.

- Guidance issued by OMB in May 2005 recognizes that agencies must maintain a residual capacity to perform core commercial activities.<sup>18</sup> Specifically, the guidance recognizes that a commercial function may be considered core to an agency’s operation to the extent the agency determines loss of in-house performance of the function would result in substantial risk to the agency’s ability to accomplish its unique mission. The guidance provides examples of justifications agencies have used to appropriately exclude core activities from competition.
- The Office of Personnel Management (OPM) and OMB co-hosted a forum in May 2005 to explore how improved collaboration in strategic human capital and competition planning enables better informed decision-making for addressing needs associated with mission critical occupations and other competency and skill imbalances or gaps. Participants also discussed how collaboration helps to maintain program stability during a restructuring effort and how to facilitate the successful redeployment of resources to higher program priorities.
- OMB sponsored a second forum in June 2005 where agencies shared best practices for getting the most out of their workforce inventories as a tool for managing their human capital resource distribution. The IRS described how greater consistency in the way activities are defined has made its inventory a more meaningful starting point for mapping out competitions. As noted above, DOI has also reported success in its efforts to plan competitions based on continuous improvements to its workforce inventory and increased involvement by its human resources and human capital advisors.

<sup>18</sup> See OMB Memorandum M-05-12, 2005 *Inventories of Commercial and Inherently Governmental Activities* (May 23, 2005).



## B. Savings

**Agencies project that competitions completed in FY 2005 will help them achieve net savings, or cost avoidances, totaling approximately \$3.1 billion over the next 5-10 years.**<sup>19</sup>

These savings are being achieved through a variety of means, including the modernization of facilities, the consolidation of operations and other process reengineering, the adoption of new technologies, improved performance standards, workforce realignments, and reductions in contract support costs. One-time, out-of-pocket expenses for conducting competitions in FY 05 were only \$49 million and fixed costs to provide central direction and oversight of the competitive sourcing program were \$33 million. For a breakdown by agency on incremental costs, fixed costs, and estimated savings, see Appendices E, F, and G.

Three-year total net expected savings figures for competitions completed in FYs 2003, 2004, and 2005 now total \$5.6 billion. Table 7 shows the cumulative gross and net savings projections. Of particular note, annualized expected net savings have increased more than three-fold between FY 2003 and FY 2005, as the total number of successfully completed competitions has risen. This trend illustrates that savings and other benefits from competitive sourcing will continue to grow as more competitions are conducted and cost control and other performance improvements are brought to bear on a larger number of our daily tasks.

**Table 7. Estimated savings from completed competitions: FYs 2003-2005**

Savings	FY 2003	FY 2004	FY 2005	Three-Year Total
Gross	\$1.2 billion	\$1.5 billion	\$3.1 billion	\$5.8 billion
Net <sup>a</sup>	\$1.1 billion	\$1.4 billion	\$3.1 billion	\$5.6 billion
Annualized gross	\$237 million	\$285 million	\$375 million	\$897 million

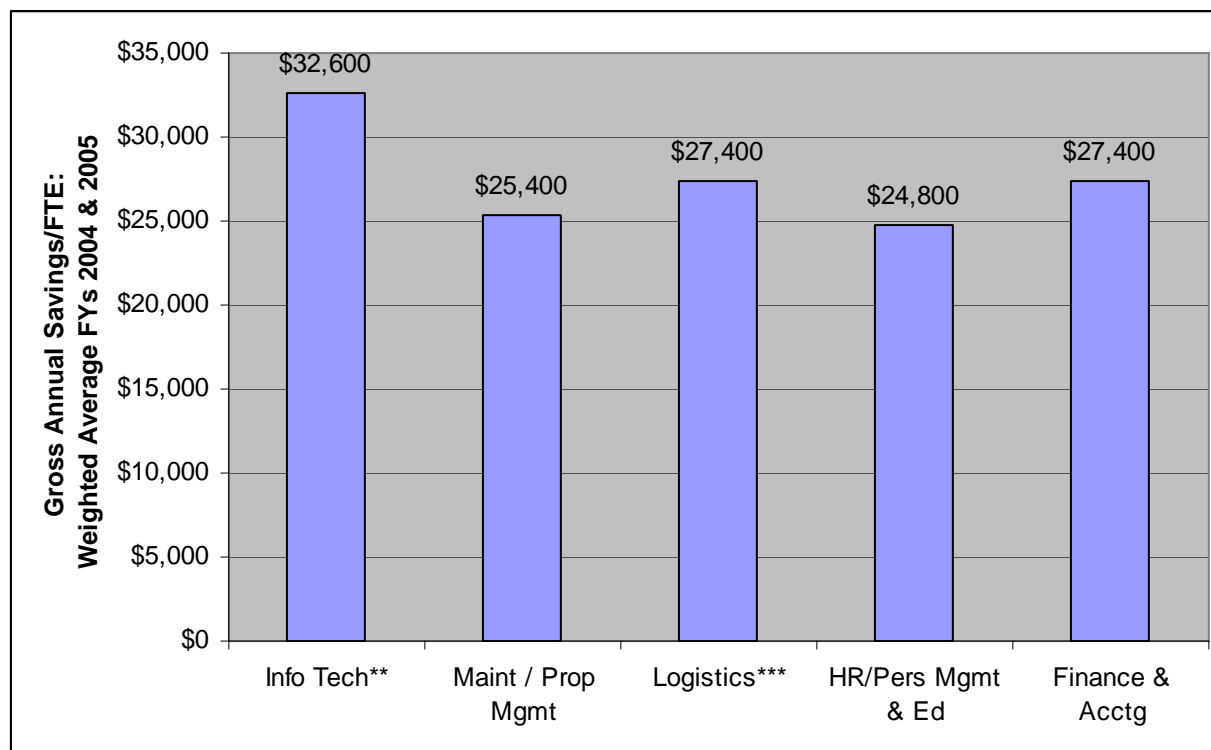
<sup>a</sup> Net savings = gross savings less incremental costs (i.e., out-of-pocket expenses). Incremental costs attributable to completed competitions were \$88 million in FY 2003, \$74 million in FY 2004, and \$50 million in FY 2005. Net savings reflect adjustments for fixed costs in FY 2005 and FY 2004, the first year OMB started to collect such costs. Adjustments have not been made for transition costs.

The average expected net savings per FTE competed over the last three fiscal years is \$23,000. Assuming the government paid roughly \$80,000 in annual salary and benefits, on average, during these three fiscal years, competitive sourcing is yielding approximately 29 percent in savings for each FTE competed. Some agencies have reported savings of more than \$80,000 per FTE (i.e., a savings rate of over 100% per FTE). This result is a reflection of the fact that the \$80,000 figure only reflects average labor costs, whereas savings are generated in multiple ways, as described above, not just through reductions in labor costs. For example, the Department of Energy reports that the restructuring of contracts to support the MEO's performance of IT activities will save the Department upwards of \$400 million over 7 years.

Returns on investment are even greater for the activities that agencies have identified most frequently for competition: IT, maintenance/property management, logistics, HR/personnel management and education, and finance and accounting. Two-year savings averages per FTE studied in these categories generally range from \$25,000 to \$33,000. See Figure 2.

<sup>19</sup> As of the date of this report, estimated savings were not available for four competitions completed in FY 2005 covering 1,845 FTEs. (Two competitions were conducted by DOD and two were conducted by Treasury.) As a result, estimated savings for FY 2005 will be higher than reported.

**Figure 2. Popular activities for competition and associated annualized gross savings per FTE**



\*See Figure 1 and Table 4 for information regarding the level of competition activity in each of these categories. The returns identified in this table do not include the FAA's AFSS competition or DOE's IT competition. Both of these competitions were conducted using a best value tradeoff process, which Congress has banned for FY 2006 competitions. See Part I of this report for additional discussion.

\*\* If DOE's IT support services best value tradeoff competition were included, the FTE savings figure would increase to \$46,100.

\*\*\* If FAA's AFSS best value tradeoff competition were included, the FTE savings figure would increase to over \$63,000.

**1. Promising trends. The improved returns reported by agencies between FYs 2003-2005 are explained by a number of promising trends that are consistent with the reasoned and responsible use of competition.** These trends, first identified in OMB's 2004 report on competitive sourcing activities and summarized in Table 8, include:

- (1) strategic selection of activities;
- (2) greater use of standard competitions;
- (3) larger competitions; and
- (4) a greater percentage of streamlined competitions with MEOs.

A fifth trend is the judicious use of best value tradeoffs in public-private competitions, where both cost and quality (as opposed to just cost alone) are taken into account in selecting a provider. As explained in Part II of this report, the consideration of both cost and quality has encouraged prospective public and private sector providers to develop innovative offers of greater overall value and substantially higher than average annual expected net savings.

**Table 8. Promising trends in competitive sourcing**

Trend	Benefit	Result
1. Strategic selection of activities	<ul style="list-style-type: none"> <li>Agencies successfully identify activities where competition is likely to achieve the greatest return by securing cross-functional participation of agency stakeholders, conducting feasibility analyses, and obtaining high-level management support.</li> </ul>	<ul style="list-style-type: none"> <li>Projected savings per FTE studied improve from \$15,000 for competitions completed in FY 03 to \$23,000 for competitions completed between FYs 03-05.</li> <li>Annualized projected savings increase from \$237M for competitions completed in FY 03 to \$375M for competitions completed in FY 05.</li> <li>Commercial support operations become more customer-focused (e.g., with the adoption of new performance standards).</li> </ul>
2. Greater use of standard competitions	<ul style="list-style-type: none"> <li>Federal employees are routinely afforded the opportunity to identify better and more cost-effective business practices and public and private sources compete head-to-head.</li> </ul>	<ul style="list-style-type: none"> <li>Competition routinely serves as a catalyst for reengineering, improved use of technology, and operational consolidations.</li> <li>The percentage of FTEs competed in competitions resulting in projected savings increases from 67% of FTEs in FY 03 to 87% of FTEs in FY 05.</li> </ul>
3. Larger competitions	<ul style="list-style-type: none"> <li>Agencies are able to package activities across regions or by business line</li> </ul>	<ul style="list-style-type: none"> <li>Long-awaited management improvements are implemented for significant agency operations.</li> </ul>
4. Greater percentage of streamlined competitions with MEOs	<ul style="list-style-type: none"> <li>In-house providers are empowered to eliminate waste and develop more efficient and effective processes.</li> </ul>	<ul style="list-style-type: none"> <li>The cost of small support functions is lowered.</li> </ul>

**2. Accountability for results. Agencies are taking steps to ensure competition results are implemented in a timely manner, tracked, and periodically validated.** These efforts reflect agencies' understanding that actual results are what counts. The following steps were taken in FY 2005 to ensure accountability for results.

*i. Baseline guidance.* The latest version of COMPARE, the software agencies use to calculate costs and document performance decisions in public-private competitions, now includes a feature that agencies may use to improve consistency and transparency in calculating baselines. DOD, which maintains the software, has developed guidance requiring use of the baseline feature to standardize how the Department calculates baseline costs.

*ii. Independent validation of results.* A number of agencies have established, or are establishing, internal processes to independently validate results from completed competitions.

## **Examples of Steps Taken to Review and Validate MEO Implementation**

**OPM.** If a competition is selected for review and involves the implementation of an MEO, the Office of Inspector General will consider, among other things, if the MEO has been implemented in a timely manner, whether the agency cost estimate and actual labor costs were accurate and reasonable, if actual costs were within the agency cost estimate, and whether the letter of obligation is being adequately administered.

**Treasury.** The Treasury Department approach to validate results utilizes existing management infrastructures in the Offices of Human Capital, Budget, Deputy Chief Financial Officer and the Office of Competitive Sourcing. Under Treasury's approach:

- The Human Capital Office ensures the performance plans of key officials are consistent with the MEO plan.
- The Budget Office compares projected costs to actual costs and also tracks FTEs.
- The Deputy Chief Financial Officer validates that the MEO is a properly established organization.
- The Competitive Sourcing Office coordinates efforts between the offices.

**Health and Human Services (HHS).** HHS relies on an independent contractor, selected by its Competitive Sourcing Office using a competitive process, to conduct validations. In the third quarter of FY 2005, two independent validations were conducted of the savings achieved from the public-private competition of library services and real property management by the Food and Drug Administration (FDA). Both competitions were completed in FY 2003. FDA projected annual savings of more than \$1.5 million from MEOs. With the help of the independent contractor, HHS' Competitive Sourcing Office compared actual savings achieved at the completion of the first performance period to projected savings. The audit indicates that the MEOs are meeting or exceeding expectations under their letters of obligation with the Department.

**Social Security Administration (SSA).** SSA's Office of Competitive Sourcing monitors the quality of performance and performance costs on implemented competitions. The Office conducted a review of the MEO selected to perform help desk services for the Office of Systems. The Systems Help Desk provides IT support for 65,000 SSA employees nationwide and more than 16,000 employees in the Disability Determination Services. SSA projects savings of \$35 million over 5 years from the implementation of the MEO, which involves consolidation and streamlining of help desk and administrative support activities. Internal reviews indicate that the MEO was implemented within the expected timeframe, is operating within cost, and is meeting performance standards. Savings are being reinvested by the Office of Systems to support priority initiatives, including development of additional electronic services for the public, rolling out an electronic disability claims process, and carrying out SSA's role in the Medicare Prescription Drug legislation.

Table 9 describes the various validation sources agencies use to assist with the evaluation of results.

**Table 9. Sources used to validate results**

Agency	Independent Validation Source
Energy	Office of Security and Safety Performance Assurance
Forest Service	Third-party contractor
HHS	Third-party contractor
Labor	DOL Office of Competitive Sourcing and Third-Party Contractor
DOT	Competitive Sourcing Office
Treasury	Offices of Human Capital, Budget, Deputy Chief Financial Officer, Office of Competitive Sourcing, and Third-Party Contractor
OPM	Office of Inspector General
SSA	Office of Competitive Sourcing and Office of Acquisitions and Grants

Accountability for actual results remains a high priority in FY 2006. The agency competitive sourcing coordinators have developed a set of frequently asked questions to address common concerns and best practices relating to post-competition accountability. The document will be made available through the Chief Acquisition Officer's Council website in the Spring.

**3. Reporting on actual savings. Agencies have begun to report actual savings on completed competitions.** Agencies reported actual savings of \$256 million in FY 2005 from competitions completed in FY 2003 and FY 2004. This figure was lower than the average annual savings figure of \$522 million projected for competitions completed during these two years. Despite the difference between actual and projected *annualized savings*, there is still reason to believe agencies are generally on track to achieve *total savings* projections when all performance periods for these competitions are completed, generally over a 5-year period. Consider the following points:

- Annualized savings projections assume that savings accrue evenly over the entire implementation period. However, actual savings are likely to be *smaller* in the near term and *greater* in the out years of implementation. In particular, near term savings are likely to be offset by investment costs, such as transition costs and capital expenditures. In addition, some letters of obligation with MEOs or contracts may not call for full performance until the second or third year of implementation, so the opportunity to achieve the full benefit of new efficiencies may not be realized in the early stages of implementation.
- Agencies' savings data shows an increase in actual savings as an agency moves further into the implementation period following the completion of a competition. For example, competitions completed in FY 2003 generated greater actual savings in FY 2005 – i.e., \$ 156 million – than in FY 2004 – i.e., \$127 million.

- Agencies calculate savings after the completion of a performance period. Because a number of FY 2004 competitions have not completed a full performance period, actual savings that may have accrued have not yet been reported by some agencies. Also, savings projections assume that savings begin to accrue at the beginning of the fiscal year following the completion of a competition. But, transitions are not necessarily tied to the beginning of a fiscal year – meaning that competitions completed in FY 2004 may have generated savings for only part of FY 2005.
- As noted above, agencies are taking steps to ensure performance decisions from competitions are implemented in a timely manner and results are validated. Senior agency management attention is reinforced by tracking through the PMA scorecard.

OMB will continue to work with agencies to evaluate alternative methodologies for tracking performance and savings. As one improvement, OMB now requires agencies to identify cost projections for each performance period throughout the duration of the contract or letter of obligation. Identifying estimated costs of the selected service provider by performance period (rather than assuming costs are incurred evenly over each year of performance) will make it easier to determine if the provider is meeting its requirements.

**4. Legislative restraints. A number of legislative provisions are limiting application of competitive sourcing, despite impressive projected savings, the reasoned use of competition, and efforts to address workforce needs. The Administration will continue to urge Congress to eliminate these restrictions so that competition may be used whenever appropriate to reduce costs, improve quality, increase efficiencies, and eliminate wasteful processes.**

Current statutory provisions addressing competitive sourcing include restrictions on the *process used to evaluate competitors* (e.g., prohibitions on the use of best value tradeoffs when evaluating prospective providers), the *activities competed* (e.g., competitive sourcing precluded for rural development and farm loan programs at the Department of Agriculture and immigration information activities at DHS), and *resources available* for competition (i.e., caps imposed on DOI and Forest Service; funding cut for the Corps of Engineers). A brief description of key current constraints is provided in Table 10.

The Administration is pleased by efforts taken by the Senate to provide relief from a longstanding restriction that has prevented the Department of Veterans Affairs (VA) from using public-private competition to generate savings – savings estimated at \$1.3 billion based on VA's 2003 workforce inventory of commercial activities. The Administration welcomes the lifting of this restriction, as provided in the Veterans Health Care Act, S. 1182, but encourages Congress to eliminate limitations in that bill so VA may take full advantage of competition to generate savings that could be used to enhance the quality of health care VA provides and free up resources that could be dedicated to our veterans.

**Table 10. Statutory constraints on the use of competitive sourcing**

<b>Statute</b>	<b>Constraint</b>	<b>Effect</b>
Transportation, Treasury, Housing & Urban Development Appropriations Act, FY 2006	Restricts use of best value to consider both quality and cost (rather than just cost) in selecting a provider between the government's "most efficient organization" and a private sector source.*	Takes away a critical tool for encouraging innovative thinking by contractors and government workers when an agency operation is in need of transformational change.
Defense Appropriations Act, FY 2006	Imposes constraints on the manner in which private contractors competing for Defense work may provide health care to their employees and prescribes a minimal amount of health care to be provided.	Creates a disincentive for the private sector, especially small businesses, to compete for Defense work and eliminates incentives for contractors to provide cost-effective health benefits, such as through health savings and medical savings accounts.
Agriculture Appropriations Act, FY 2006	Precludes use of competition for rural development and farm loan programs.	Prevents USDA from improving the efficiency and cost effectiveness of these programs.
Interior Appropriations, FY 2006	Limits funds available to DOI and Forest Service for competition.	Unnecessarily limits the ability of these agencies to take full strategic advantage of competition to reduce costs and improve performance.
DHS Appropriations Act, FY 2006	Precludes use of competition for immigration information function.	Inappropriately strips DHS of the management discretion to apply competition in a reasoned manner and be held accountable for results.
Energy & Water Development Appropriations Act, FY 2006	Decreases funding in civil works program accounts available for competitive sourcing.	Limits Corps' ability to achieve cost-savings and performance-enhancing management improvements.
38 U.S.C. § 8110	Restricts VA's use of public-private competition.	Prevents VA from reaping savings that could be used to provide additional health care for veterans.

\*DOD and TSA are exempt from this restriction. However, the FY 2006 Defense Authorization Act permanently codifies this restriction for DOD in title 10.

## Part II. Best value tradeoffs in competitive sourcing

Section 842 of the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, FY 2006, P.L. 109-115, precludes an agency from converting work currently performed by more than 10 federal employees to private sector performance absent a showing, through competition, that performance by a contractor would be less costly to the agency by an amount that equals or exceeds the lesser of 10 percent of the personnel-related costs associated with performance by the agency's most efficient organization (MEO) or \$10 million. Under section 842, an agency may not convert work to private sector performance if this differential is not met, even if the agency can demonstrate that private sector performance would provide a superior solution, considering both cost and quality. In the absence of section 842, OMB Circular A-76 would authorize an agency to consider this conversion, but only if certain procedures are followed to ensure an impartial and properly justified decision.

In passing section 842, the Conferees requested that OMB advise them of the impact of this section "on the Federal government's ability to obtain value for the taxpayer, both in terms of cost and quality, through the use of competitive sourcing." The Conference report states that this information will be considered by the Conferees in deciding whether this restriction should be continued in FY 2007.

**OMB believes the limitation in section 842 inappropriately precludes taxpayers from receiving significant benefits generated by public-private competition.**

### A. Background

Prior to 2003, agencies were not allowed to consider tradeoffs between the cost and quality of the MEO (i.e., the in-house government provider's proposed solution) and the best private sector contractor's proposed solution. Traditionally, Circular A-76 required the government to conduct a cost-based comparison between the MEO and the best private sector contractor. Selection between the MEO and the contractor would be based strictly on cost alone – i.e., work would be performed by the MEO unless conversion would result in a savings of at least 10 percent or \$10 million (whichever is less) when compared to performance by the MEO.

In May 2003, OMB revised the Circular to allow agencies to consider both cost and quality in deciding whether work should remain in-house or be converted to private sector performance. In authorizing cost-technical tradeoffs, OMB imposed certain caveats to ensure that *cost remains a significant factor in all decisions*. Specifically, agencies must: (a) identify the specific weight given to each evaluation factor and sub-factor, and (b) make the specific weight for cost or price at least equal to all other evaluation factors combined unless quantifiable performance measures can be used to assess value and can be independently evaluated.



The bipartisan Commercial Activities Panel endorsed the use of tradeoffs, after conducting an extensive review of the competitive sourcing process, which included multiple public hearings.<sup>20</sup>

## B. Findings

Agencies began using the tradeoff process for public-private competitions in FY 2004. Through the end of FY 2005, agencies conducted 14 tradeoff competitions. Table 11 provides an overall comparison of results achieved in competitions using the tradeoff process to those where final selection decisions were based strictly on cost.

**Table 11. Comparing results: best value “tradeoff” vs. cost-only standard competitions\***

Factor	Best Value “Tradeoff”	Cost-Only Competition	Combined
Number of Competitions	14 (13%)	96 (87%)	110 (100%)
Number of FTE	5,204 (33%)	10,511 (67%)	15,715 (100%)
Average Number of FTE	372	109	143
Average Number of Bids Received	2.4	1.9	2.0
Average Annualized Net Savings per FTE	\$68,000	\$24,000	\$39,000
Total Annualized Net Savings	\$357 M (59%)	\$253 M (41%)	\$610 M (100%)
Total Net Savings	\$3.0 B (70%)	\$1.3 B (30%)	\$4.3 B (100%)

\* Data reflects competitions completed in FYs 2004 & 2005. Best value tradeoffs were first authorized in public-private competitions by the 2003 revisions to OMB Circular A-76. Agencies did not complete competitions using best value tradeoffs until FY 2004.

Results are impressive. Proposals selected through the tradeoff process in FYs 2004 and 2005 include many MEOs and are expected to help agencies achieve savings of about \$68,000 per FTE competed, as opposed to \$24,000 per FTE competed on the basis of cost alone during this same timeframe – almost *three times* the level of savings per position competed.

Agencies have used best value tradeoff authority judiciously to maximize expected returns. Over the last two years, best value tradeoff competitions accounted for only one-third of the FTEs competed and less than 15 percent of the standard competitions conducted. Yet, these

<sup>20</sup>*Improving the Sourcing Decision of the Government* Final Report of the Commercial Activities Panel (2002), available at [www.gao.gov/a76panel/dcap0201.pdf](http://www.gao.gov/a76panel/dcap0201.pdf). At least a two-thirds majority of the Panel’s members recommended that the Circular’s best value provisions be revised to ensure that agencies are able to identify high value service providers in public-private competitions.

competitions generated in excess of 70 percent of the total estimated net savings reported in FY 2004 and 2005 – i.e., \$3 billion out of \$4.3 billion.

The most significant benefit of the tradeoff process is measured not in dollars alone, but in the transformational improvements that are made possible when the government has the ability to measure value in more ways than just cost reduction, which, in turn, gives offerors more options for proposing solutions that are both high quality and cost-effective.

### **How Section 842 Would Have Harmed FAA's Modernization of Automated Flight Services**

Prior to the enactment of section 842. . .

- FAA conducted a public-private competition for automated flight services and evaluated offers under a best value tradeoff process that permitted the agency to consider both cost and quality in the final selection between public and private offerors.
- Offerors developed innovative proposals because they knew FAA had the option to make an award to other than the lowest cost provider. The selected proposal will yield \$2.2 billion in taxpayer savings through modernized facilities, state-of-the art technology and high-quality customer service. Several indicators already are beginning to show performance improvements. In the first month following transition from the old provider to the new one, the lost call volume decreased by more than 50 percent and the length of time pilots spent waiting on the phone for service decreased by about half.

Had section 842 been applied to FAA's competition. . .

- The winning provider could have competed. However, instead of offering the best solution, as measured in terms of both cost and quality, the provider would have focused on offering the *cheapest solution* because section 842 requires that the final selection between the public and private sectors be based on cost alone.
- Section 842 would not have prevented the winning provider from offering a high quality, innovative solution. However, the provider would not likely have offered to do much reengineering. In fact, few private sector companies are likely to undertake the effort and expense of developing an innovative offer if the agency intends to share it with the in-house provider to make a cost-only comparison between the two sources, as mandated by section 842. They will want to be rewarded for their creativity and investment.
- FAA would have been left selecting between proposals that offered little more than maintaining the current environment – i.e., a low-cost, short-term fix with minimal capital investment, and a remaining burden, which FAA could not support over the long term, given the cost and risk of continued reliance on substandard technology and a deteriorating infrastructure.

## C. Conclusions

**Agencies' ability to repeat the most impressive results from tradeoffs in future years (e.g., the FAA's AFSS competition) are jeopardized by section 842, which requires the government to conduct a cost-based comparison between the MEO and the best private sector contractor.** The cost comparison model generally works well for public-private competitions that involve routine needs, such as building or lawn maintenance, where transformational improvement is not required. However, agencies find that this model is less effective for highly technical activities or for encouraging innovative thinking, by either contractors or government workers, when the agency must modernize its operations and fundamentally change the way service is provided to customers.

Solutions prepared with the expectation of being evaluated only on cost typically perpetuate the status quo and rarely offer innovation when it is needed. By contrast, the tradeoff authority provided in the Circular offers an impartial and transparent process for stimulating results that are both innovative and cost-effective.

The availability of tradeoff authority has already provided, and should continue to yield, solid results and responsible stewardship. For these reasons, OMB will urge Congress to repeal section 842 or, at a minimum, modify the requirement to permit decisions in all situations on the basis of both cost and quality.<sup>21</sup>

OMB has prepared a separate report with additional discussion on the adverse effect of section 842. See *COMPETITIVE SOURCING: Report on the Use of Best Value Tradeoffs in Public-Private Competitions* (April 2006).<sup>22</sup>

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<sup>21</sup> For example, section 647(a) of P.L. 108-199, unlike section 842, permitted agencies to take both cost and quality into account in all situations in the final selection of a provider.

<sup>22</sup> For a copy of the report, go to [www.whitehouse.gov/omb/procurement/index\\_comp\\_sourcing.html](http://www.whitehouse.gov/omb/procurement/index_comp_sourcing.html).

### Part III. Appendices

The following appendices have been included in this report to provide additional consolidated information on agencies' competitive sourcing efforts:

- Appendix A-1. Competitions Completed in FY 2005
- Appendix A-2. Competitions Announced in FY 2005
- Appendix B. Planned Competitions for FY 2006
- Appendix C-1. Types of Activities Competed or Announced in FY 2005
- Appendix C-2. Activities Most Frequently Competed by Agency
- Appendix D. Performance Decisions
- Appendix E. Incremental Cost of Conducting Competition
- Appendix F. Fixed Costs
- Appendix G. Estimated Savings for Completed Streamlined & Standard Competitions
- Appendix H. FY 2005 Competitions Exceeding the 3-year Average Annual FTE Savings Level

1. *General caveat regarding data in the appendices.* The data provided in these appendices have been derived from individual agency reports prepared in accordance with OMB Memorandum M-06-01. Each agency has made a good faith attempt to provide the competition-specific information requested by OMB in its individual report and has reviewed the data in these appendices for consistency with its individual report to Congress. The attached appendices and the summary tables in the report are limited to the extent information was not included in an agency's report.

2. *Methodologies and assumptions.* The following explanations are provided for readers to better understand what figures in the appendices represent.

a. Streamlined and standard competitions. These terms include streamlined and standard competitions conducted under the revisions to OMB Circular A-76 published on May 29, 2003 and streamlined and standard cost comparisons conducted under the Circular prior to its revision.

b. Reporting period. Data reflect: (i) competitions completed in FY 2005 regardless of when they were initiated; and (ii) competitions announced in FY 2005 but not completed in 2005.

c. Incremental costs. To evaluate agency results in a consistent manner, OMB developed guidelines for agencies to calculate the incremental cost of competition and estimated savings. Consistent with Section 647, which calls for agencies to identify the incremental costs of competition, OMB developed guidance to capture only the out-of-pocket expense of competition. These costs include:

- The costs of consultants or contractors who participated in the conduct of the reported competitions;
- The costs of travel, training, or other incremental expenses directly attributed to the conduct of the reported competitions; and
- Incremental in-house staff costs that were incurred as part of conducting the competition (i.e., any staff hired specifically to work on a particular competition or fill behind employees temporarily working on a competition or overtime costs (where overtime costs are tracked)).

Reporting excludes any costs that would have been paid irrespective of whether the agency pursued competition, such as the costs of in-house staff that may have spent time on the competition during regular working hours, but were not hired to work on a competition and will continue to be on-board after the competition is completed. Any costs incurred prior to public announcement of the competition are also excluded. The steps typically involved in preliminary planning -- e.g., conducting a workload assessment, evaluating how the organization could be reorganized to operate more efficiently, benchmarking against industry standards -- are good management practices that offer benefit to the agency irrespective of whether public-private competition is pursued.

Incremental cost does not reflect, nor is it intended to reflect, the amount of overall effort an agency applies to competitive sourcing. It simply reflects the out-of-pocket costs to the agency.

d. Fixed costs. OMB's guidance for FY 2005 reporting requires that agencies identify fixed costs -- i.e., labor costs associated with providing central direction and oversight. Central direction includes that provided both by an agency's headquarters and, if applicable, that provided by a bureau. Fixed costs include the cost of FTEs that are fully dedicated to managing the competitive sourcing initiative at the agency and any contract support costs associated with this effort. They do not include the cost of FTEs or contract support associated with specific competitions or out-of-pocket (incremental) costs for conducting individual competitions. Some agencies are not currently collecting information on fixed costs in a systematic fashion and have provided an estimate.

e. Savings. To estimate savings achieved under the winning offer, agencies developed an "as is" baseline reflecting the total of in-house personnel costs, overhead, contract costs, and, in some cases, other costs (e.g., cost of capital, leases, supplies and materials). Transition costs (e.g., Voluntary Early Retirement Authority or Voluntary Separation Incentive Program costs, moving expenses, etc.) are not included in the baseline and are not captured in the savings figures in this report.

Agencies were instructed to develop estimates that correspond to the manner in which the function was planned for budgeting purposes in the year that the announcement was made. This guidance is designed to produce a realistic estimate of savings and avoid baselines that reflect desired staffing levels or staffing that happened to exist at the time the competition was announced. In addition, agencies were instructed to adjust savings figures to constant 2005 dollars.

*Note:* Some figures in the appendices and the body of the report are presented in terms of FTE in order to provide a common measure across agencies. This does not mean that savings are exclusively the result of lower personnel costs. Reported savings are being derived in a number of ways. For example, where in-house sources have relied on private support contractors, the development of a most efficient organization may result in lower contract support costs. Savings are also being derived from operational consolidations that enable agencies to eliminate duplicative and wasteful capital investments and leverage technology more effectively.

f. Direct conversions. Prior reports identified several direct conversion actions pursued prior to the issuance of the revised Circular. No such actions were reported this year. The revised Circular does not authorize direct conversions.

g. Planned competitions. In most cases, FTE figures are estimates that may be subject to adjustment based on the results of agency analyses (e.g., business case analysis, cost-benefit analysis).

3. *Profiles of success*. Appendices A-G provide information on an agency-by-agency basis. Appendix H provides brief profiles of competitions with above average returns for activities that were popular subjects of competition in FY 2005, such as IT, maintenance and property management, logistics, finance and accounting, and regulatory and program management support services. Governmentwide, there were at least 7 competitions conducted in each of these areas.

## Appendix A-1

Competitions Completed in FY 2005<sup>1</sup>

Agency	Number of Competitions				Number of FTEs Completed								
	Streamlined	Standard	Direct Conversions	Total	Total				Average per competition				
					Streamlined	Standard	Direct Conversions	Total	Streamlined	Standard	Direct Conversions		
Agriculture	0	2	0	2	0	270	0	270	0	270	n/a	135	n/a
Commerce	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a
Defense	26	9	0	35	300	2,200	0	2,500	0	2,500	12	244	n/a
Education	1	0	0	1	30	0	0	30	0	30	30	n/a	n/a
Energy	0	1	0	1	0	642	0	642	0	642	n/a	642	n/a
EPA	6	1	0	7	26	26	0	52	0	52	4	26	n/a
HHS	23	8	0	31	244	711	0	955	0	955	11	89	n/a
Homeland	1	4	0	5	14	123	0	137	0	137	14	31	n/a
HUD	4	0	0	4	14	0	0	14	0	14	4	n/a	n/a
Interior	4	0	0	4	84	0	0	84	0	84	21	n/a	n/a
Justice	5	0	0	5	58	0	0	58	0	58	12	n/a	n/a
Labor	6	2	0	8	69	56	0	125	0	125	12	28	n/a
State	4	0	0	4	98	0	0	98	0	98	25	n/a	n/a
DOT	6	2	0	8	112	2,311	0	2,423	0	2,423	19	1,156	n/a
Treasury	1	4	0	5	9	1,177	0	1,186	0	1,186	9	294	n/a
VA	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a
AID	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a
Corps	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a
GSA	25	0	0	25	125	0	0	125	0	125	5	n/a	n/a
NASA	0	20	0	20	0	852	0	852	0	852	n/a	43	n/a
NSF	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a
OMB	1	0	0	1	1	0	0	1	0	1	1	n/a	n/a
OPM	2	1	0	3	62	163	0	225	0	225	31	163	n/a
SBA	0	3	0	3	0	152	0	152	0	152	n/a	51	n/a
Smithsonian	0	0	0	0	0	0	0	0	0	0	n/a	n/a	n/a
SSA	9	0	0	9	51	0	0	51	0	51	6	n/a	n/a
GOVERNMENTWIDE	124	57	0	181	1,296	8,683	0	9,979	0	9,979	10	152	n/a

Note:

1. Includes all competitions completed in FY2005 irrespective of when they were initiated.

## Appendix A-2

Competitions Announced in FY 2005<sup>1</sup>

Agency	Number of Competitions				Number of FTEs Competed							
	Streamlined		Standard		Direct Conversions		Total		Average per competition			
	Streamlined	Standard	Direct Conversions	Total	Streamlined	Standard	Direct Conversions	Total	Streamlined	Standard	Direct Conversions	
Agriculture	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
Commerce	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
Defense	5	8	0	13	90	1,211	0	1,301	18	151	n/a	
Education	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
Energy	0	1	0	1	0	72	0	72	n/a	72	n/a	
EPA	7	0	0	7	39	0	0	39	6	n/a	n/a	
HHS	2	2	0	4	96	275	0	371	48	138	n/a	
Homeland	0	2	0	2	0	74	0	74	n/a	37	n/a	
HUD	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
Interior	7	3	0	10	323	576	0	899	46	192	n/a	
Justice	0	1	0	1	0	127	0	127	n/a	127	n/a	
Labor	4	1	0	5	109	78	0	187	27	78	n/a	
State	0	3	0	3	0	237	0	237	n/a	79	n/a	
DOT	1	0	0	1	8	0	0	8	8	n/a	n/a	
Treasury	0	1	0	1	0	160	0	160	n/a	160	n/a	
VA	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
AID	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
Corps	0	1	0	1	0	80	0	80	n/a	80	n/a	
GSA	4	0	0	4	36	0	0	36	9	n/a	n/a	
NASA	0	34	0	34	0	1,108	0	1,108	n/a	33	n/a	
NSF	1	0	0	1	22	0	0	22	22	n/a	n/a	
OMB	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
OPM	1	0	0	1	15	0	0	15	15	n/a	n/a	
SBA	0	1	0	1	0	140	0	140	n/a	140	n/a	
Smithsonian	0	0	0	0	0	0	0	0	n/a	n/a	n/a	
SSA	2	0	0	2	0	0	0	0	0	n/a	n/a	
GOVERNMENTWIDE	34	58	0	92	738	4,138	0	4,876	22	71	n/a	

Note:

1. Includes competitions announced, but not completed, in FY 2005.



## Planned Competitions for FY 2006

Agency	Number of FTEs in Competitions Planned for Announcement <sup>1</sup>
Agriculture	3,540
Commerce	100
Defense	10,338
Education	250
Energy	100-300
EPA	285
HHS	1,300
Homeland	4,449
HUD	231-251
Interior	1,415
Justice	82
Labor	833
State	0
DOT	95-104
Treasury	200
VA <sup>2</sup>	0
AID	4
Corps	2,000
GSA	338
NASA	440
NSF	7-15
OMB	n/a
OPM	25
SBA	111
Smithsonian	0
SSA	329
GOVERNMENTWIDE <sup>3</sup>	26,591

## Notes:

1. These figures are subject to adjustment based on result of agency analyses.
2. Statutory restrictions limit VA's ability to conduct public-private competitions.
3. Where an agency identified a range of FTE, the average of the range was used to calculate the total government-wide FTE planned for competition in FY 2006.

## Appendix C - 1

Types of Activities Competed or Announced for Competition in FY 2005<sup>1</sup>

Agency	Function Code <sup>2</sup>																		
	B	C	D	E	F	G	H	J	L	M	R	S	T	U	W	X	Y	Z	000
Agriculture											•								
Commerce																			
Defense								•		•		•	•	•	•		•	•	•
Education															•				
Energy			•												•				
EPA		•													•				•
HHS	•	•	•			•	•	•			•	•	•		•		•		•
Homeland												•							
HUD		•										•			•				
Interior			•								•	•		•	•	•			•
Justice	•							•				•	•		•				
Labor		•	•			•	•		•			•	•	•			•	•	•
State	•											•	•	•			•		
DOT			•									•	•				•		•
Treasury				•								•				•			•
VA																			
AID																			
Corps		•																	
GSA																		•	
NASA					•						•								
NSF																			•
OMB															•				
OPM												•		•	•				•
SBA		•	•																
Smithsonian																			
SSA			•					•				•			•		•		•

## Notes:

1. This chart identifies the primary activities that were the subject of competition.
2. There were no completed or announced competitions for activities primarily in the "A" function code, "Recurring Testing and Inspection Services"; the "I" function code, "Investigations"; the "K" function code, "Depot Repair, Maintenance, Modification, Conversion, or Overhaul of Equipment"; the "P" function code, "Base Maintenance/Multi-Function Contracts; or the "Q" function code, "Civil Works." There are no "N", "O", or "V" function codes.

## Key

<b>B</b> = Personnel Management <b>C</b> = Finance & Accounting <b>D</b> = Regulatory & Program Management Support Services <b>E</b> = Environment <b>F</b> = Procurement <b>G</b> = Social Services <b>H</b> = Health Services	<b>J</b> = Intermediate, Direct, or General Repair & Maintenance of Equipment <b>L</b> = Grants Management <b>M</b> = Forces & Direct Support <b>R</b> = Research, Development, Test, & Evaluation	<b>S</b> = Installation Services <b>T</b> = Other Non-Manufacturing Operations (Logistics) <b>U</b> = Education & Training <b>W</b> = Communications, Computing, & Other Information Services	<b>X</b> = Products Manufactured & Fabricated In-House <b>Y</b> = Force Management & General Support <b>Z</b> = Maintenance, Repair, Alteration, & Minor Construction of Real Property <b>000</b> = Administrative Support
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### Activities Most Frequently Competed by Agency<sup>1</sup>

Agency	Activity <sup>2,3</sup>	FTE <sup>3</sup>
Agriculture	Facilities Operations and Maintenance	189
Commerce	n/a	---
Defense	Maint and Repair of Buildings and Structures	809
Education	IT Help Desk	30
Energy	Information Technology	642
EPA	IT Support	39
HHS	Clerical Support	350
Homeland	Public Works	197
HUD	Financial Reporting	11
Interior	Mapping and Charting	400
Justice	Data Center and other IT Services	127
Labor	Installation/Building Management	78
State	Print and Graphic Services	199
DOT	Automated Flight Service Stations	2,300
Treasury	Administrative Support	1,000
VA	n/a	---
AID	n/a	---
Corps	Finance Center	80
GSA	Maint, Repair, and Construction of Real Property	161
NASA	Shared Services	200
NSF	Administrative Support	22
OMB	IT Services	1
OPM	Administrative Support	163
SBA	Disaster Loan Servicing	140
Smithsonian	n/a	---
SSA	Mailroom	39

Notes:

1. Activities identified on this chart are described in general terms, not by specific function code.
2. Determined based on number of FTEs in standard and streamlined competitions announced or completed in FY 2005.
3. "n/a" indicates not applicable since no competitions were reported.

## Performance Decisions

Agency	Provider Selected, Str/Std Competitions (Based on FTE Competed) <sup>1</sup>	
	In-House	Contractor
Agriculture	100%	0%
Commerce	n/a	n/a
Defense	71%	29%
Education	0%	100%
Energy	100%	0%
EPA	100%	0%
HHS	99%	1%
Homeland	100%	0%
HUD	79%	21%
Interior	100%	0%
Justice	100%	0%
Labor	100%	0%
State	100%	0%
DOT	5%	95%
Treasury	91%	9%
VA	n/a	n/a
AID	n/a	n/a
Corps	n/a	n/a
GSA	54%	46%
NASA <sup>2</sup>	16%	84%
NSF	n/a	n/a
OMB	100%	0%
OPM	23%	77%
SBA	100%	0%
Smithsonian	n/a	n/a
SSA <sup>3</sup>	93%	7%
GOVERNMENTWIDE	61%	39%

## Note:

1. "n/a" indicates not applicable since no competitions were reported.
2. All but two NASA competitions completed in FY 2005 were science competitions awarded under a deviation to multiple providers in both the public and private sectors. The science competitions are not included in the calculation as they are not applicable.
3. SSA had one competition for five FTE with a public-reimbursable provider selected. This competition is not included in the SSA or Governmentwide percentages.

Incremental Cost of Conducting Competitions<sup>1</sup>

Agency	Incremental Costs			Total	Incremental Cost per FTE (Completed Competitions only)		
	Completed	Announced	Total		Streamlined	Standard	Average
Agriculture	\$950,000	n/a	\$950,000	n/a	\$3,519	\$3,519	\$3,519
Commerce	n/a	n/a	\$0	n/a	n/a	n/a	n/a
Defense <sup>2</sup>	\$15,399,000	\$4,661,158	\$20,060,158	\$3,997	\$7,000	\$6,639	\$6,639
Education	\$166,000	n/a	\$166,000	\$5,533	n/a	\$5,533	\$5,533
Energy <sup>2</sup>	\$2,463,000	\$0	\$2,463,000	n/a	\$3,836	\$3,836	\$3,836
EPA	\$163,000	\$0	\$163,000	\$0	\$6,253	\$6,253	\$3,157
HHS	\$4,594,000	\$845,000	\$5,439,000	\$2,134	\$5,730	\$4,811	\$4,811
Homeland	\$787,000	\$878,000	\$1,665,000	\$6,000	\$5,718	\$5,747	\$5,747
HUD	\$132,000	n/a	\$132,000	\$9,429	n/a	\$9,429	\$9,429
Interior	\$156,000	\$141,000	\$297,000	\$1,868	n/a	\$1,868	\$1,868
Justice	\$124,000	\$0	\$124,000	\$2,138	n/a	\$2,138	\$2,138
Labor	\$241,000	\$237,000	\$478,000	\$928	\$3,161	\$1,928	\$1,928
State	\$0	\$1,418,000	\$1,418,000	\$0	n/a	n/a	n/a
DOT	\$17,418,000	\$0	\$17,418,000	\$5,541	\$7,268	\$7,188	\$7,188
Treasury	\$2,096,000	\$218,000	\$2,314,000	\$9,222	\$1,710	\$1,767	\$1,767
VA	n/a	n/a	n/	n/a	n/a	n/a	n/a
AID	n/a	n/a	n/	n/a	n/a	n/a	n/a
Corps	n/a	\$0	\$0	n/a	n/a	n/a	n/a
GSA	\$238,000	\$0	\$238,000	\$1,904	n/a	\$1,904	\$1,904
NASA	\$3,388,000	\$0	\$3,388,000	n/a	\$3,977	\$3,977	\$3,977
NSF	n/a	\$69,000	\$69,000	n/a	n/a	n/a	n/a
OMB	\$0	n/a	\$0	\$0	n/a	\$0	\$0
OPM	\$522,000	\$0	\$522,000	\$2,871	\$2,110	\$2,320	\$2,320
SBA	\$861,000	\$92,000	\$953,000	n/a	\$5,664	\$5,664	\$5,664
Smithsonian	n/a	n/a	n/	n/a	n/a	n/a	n/a
SSA	\$59,000	\$0	\$59,000	\$1,157	n/a	\$1,157	\$1,157
GOVERNMENTWIDE	\$49,757,000	\$8,559,158	\$58,316,158	\$2,796	\$5,451	\$5,106	\$5,106

Notes:

1. "n/a" indicates not applicable since no competitions were reported.
2. Cost figures reported by Defense and Energy include some costs associated with preliminary planning that were excluded by other agencies pursuant to OMB Memorandum # M-06-01. DoD figures also include additional personnel cost that were excluded by other agencies pursuant to M-06-01. Data on incremental costs was not available for a small segment of DoD's completed competitions.

## Fixed Costs

Agency	Fixed Costs
Agriculture	\$1,191,000
Commerce <sup>1</sup>	\$180,000
Defense	\$17,500,000
Education	\$58,000
Energy	\$791,000
EPA	\$696,595
HHS	\$1,735,479
Homeland	\$1,000,000
HUD	\$348,000
Interior	\$1,020,000
Justice	\$135,000
Labor	\$655,773
State	\$1,532,000
DOT	\$451,000
Treasury	\$3,184,000
VA	N/A <sup>2</sup>
AID <sup>1</sup>	\$0
Corps	\$0
GSA	\$355,000
NASA	\$662,000
NSF	\$46,000
OMB	\$0
OPM	\$162,000
SBA	\$108,400
Smithsonian <sup>1</sup>	\$0
SSA	\$736,000
GOVERNMENTWIDE	\$32,547,000

Notes:

1. No competitions were conducted by these agencies in FY 2005.

2. Statutory restrictions limit VA's ability to conduct public-private competitions.

Estimated Savings for Completed Streamlined and Standard Competitions<sup>1</sup>

Agency	Anticipated Savings		Net Savings per FTE		Annualized Gross Savings			Average Annual Net Savings per FTE		
	Gross	Net	Streamlined	Standard	Streamlined	Standard	Total	Streamlined	Standard	Total
Agriculture	\$8,100,000	\$7,150,000	n/a	\$26,481	n/a	\$1,620,000	\$1,620,000	n/a	\$5,296	\$5,296
Commerce	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Defense <sup>2</sup>	\$177,418,000	\$162,019,000	\$39,083	\$99,171	\$4,287,199	\$32,171,940	\$36,459,139	\$13,405	\$20,487	\$19,277
Education	\$1,850,000	\$1,684,000	\$56,133	n/a	\$616,667	n/a	\$616,667	\$18,711	n/a	\$18,711
Energy	\$456,492,000	\$454,029,000	n/a	\$707,210	n/a	\$65,213,143	\$65,213,143	n/a	\$101,030	\$101,030
EPA	\$3,618,000	\$3,455,000	\$4,788	\$128,203	\$24,420	\$655,886	\$680,306	\$958	\$24,053	\$12,618
HHS	\$104,966,000	\$100,371,000	\$62,365	\$119,767	\$3,146,866	\$15,905,357	\$19,052,223	\$12,470	\$21,350	\$19,081
Homeland	\$14,357,000	\$13,570,000	\$88,714	\$100,224	\$265,200	\$2,606,172	\$2,871,372	\$17,743	\$20,045	\$19,809
HUD	\$4,129,000	\$3,997,000	\$285,500	n/a	\$818,563	n/a	\$818,563	\$36,634	n/a	\$56,634
Interior	\$8,530,000	\$8,374,000	\$100,287	n/a	\$1,663,800	n/a	\$1,663,800	\$19,622	n/a	\$19,622
Justice	\$2,277,000	\$2,153,000	\$37,121	n/a	\$455,400	n/a	\$455,400	\$7,424	n/a	\$7,424
Labor	\$15,494,000	\$15,253,000	\$79,174	\$174,821	\$1,842,333	\$1,993,400	\$3,835,733	\$26,391	\$34,964	\$30,232
State	\$0	\$0	\$0	n/a	\$0	n/a	\$0	\$0	n/a	\$0
DOI	\$2,232,176,000	\$2,214,758,000	\$51,655	\$955,851	\$1,281,200	\$222,676,956	\$223,958,156	\$10,482	\$95,628	\$91,693
Treasury <sup>3</sup>	\$10,768,000	\$8,672,000	\$112,222	\$99,508	\$218,600	\$1,935,000	\$2,153,600	\$22,444	\$19,902	\$20,168
V.A.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AID	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Corps	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GSA	\$7,520,000	\$7,282,000	\$58,259	n/a	\$1,460,939	n/a	\$1,460,939	\$11,268	n/a	\$11,268
NASA	\$46,000,000	\$42,612,000	n/a	\$49,996	n/a	\$5,000,000	\$5,000,000	n/a	\$5,866	\$5,866
NSF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
OMB	\$0	\$0	\$0	n/a	\$0	n/a	\$0	\$0	n/a	\$0
OPM	\$14,300,000	\$13,778,000	\$20,097	\$76,883	\$284,800	\$2,575,200	\$2,860,000	\$4,019	\$15,377	\$12,247
SBA	\$35,337,000	\$34,476,000	n/a	\$226,813	n/a	\$7,067,300	\$7,067,300	n/a	\$45,363	\$45,363
Smithsonian	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
SSA	\$755,000	\$696,000	\$13,647	n/a	\$154,050	n/a	\$154,050	\$2,789	n/a	\$2,789
GOVERNMENTWIDE	\$3,144,087,000	\$3,094,329,000			\$16,520,058	\$359,420,353	\$375,940,411	\$12,155	\$51,661	\$45,365

Note:

1. "n/a" indicates not applicable since no competitions were reported.

2. Data on estimated savings was not available for two of DoD's completed cost comparisons covering 745 FTE.

3. Data on estimated savings was not available for two of Treasury's completed standard competitions covering 1,100 FTE.

## Appendix H

**FY 2005 Competitions Exceeding the 3-year Average Annual FTE Savings Level**

Primary Activity Competed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings	Primary Cost-Saving Changes***
<b>Logistics</b>								
Automated Flight Service Stations	DOT/FAA	3	2,300	17 months	Standard/CTTO	\$97,000	\$224.5 M	D, C
Logistics	DoD/DLA	2	341	Data Not Collected (Previous Circular)	Cost Comparison/LPTA	\$27,000	\$9.2 M	A, D
Distribution Operations	DoD/DLA	1	124	Data Not Collected (Previous Circular)	Cost Comparison/LPTA	\$23,000	\$2.8 M	A, B, C
Motor Vehicles Ops and Maint	DoD/Marine Corps	1	76	Data Not Collected (Previous Circular)	Cost Comparison/LPTA	\$42,000	\$3.2 M	D
Supply Operations	DoD/Marine Corps	1	53	Data Not Collected (Previous Circular)	Cost Comparison/Sealed Bid	\$35,000	\$1.8 M	B, D
<b>Finance &amp; Accounting</b>								
Financial Management	SBA	3	130	13 months	Standard/LPTA	\$46,000	\$5.9 M	A, C, D
Finance & Accounting	DOL	1	23	3 months	Standard/LPTA	\$43,000	\$1.0 M	D, B, C
Vendor Payments	EPA	2	26	12 months	Standard/LPTA	\$25,000	\$0.6 M	D, B, C
Financial Reporting	HHS/CMS	1	13	3 months	Streamlined with MEO/Not Applicable	\$29,000	\$0.4 M	B

Criteria:

Standard Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions (i.e., \$23,000); (ii) at least 10 FTE in the competition; and (iii) at least one private sector offer received.

Streamlined Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions; and (ii) at least 10 FTE in the competition.

**Key**

<b>*Approach for Grouping Activities</b>	<b>**Source Selection Strategy</b>	<b>***Primary cost-saving changes</b>
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTTO = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = reduction in contract support costs G = other



## Appendix H

**FY 2005 Competitions Exceeding the 3-year Average Annual FTE Savings Level (continued)**

Primary Activity Competed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings	Primary Cost-Saving Changes***
<b>Maintenance / Property Management</b>								
Public Works	DHS	1	42	3 months	Standard/LPTA	\$36,000	\$1.5 M	A, B, E
Mechanical Operation and Maint	GSA/PBS	1	12	3 months	Streamlined with MEO/ Not Applicable	\$51,000	\$0.6 M	G, A
Building Management	DoD/DEA	1	13	6 months	Streamlined with MEO/ Not Applicable	\$42,000	\$0.5 M	A, E
Commercial Enforcement	DOT/FMCSA	3	11	3 months	Streamlined with MEO/ Not Applicable	\$36,000	\$0.4 M	D, F
<b>Information Technology</b>								
IT Support Services	DoD/DCMA	1	17	24 months	Streamlined with MEO/ Not Applicable	\$69,000	\$1.2 M	,B,C,F
Information Systems	DoD/Air Force	1	13	6 months	Streamlined with MEO/ Not Applicable	\$41,000	\$0.5 M	B, C
Information Operation Services	HHS/NIH	2	16	3 months	Streamlined with MEO/ Not Applicable	\$23,000	\$0.9 M	A, D

Criteria:

Standard Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions (i.e., \$23,000); (ii) at least 10 FTE in the competition; and (iii) at least one private sector offer received.

Streamlined Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions; and (ii) at least 10 FTE in the competition.

**Key**

<b>*Approach for Grouping Activities</b>	<b>**Source Selection Strategy</b>	<b>***Primary cost-saving changes</b>
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTTO = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = reduction in contract support costs G = other

## Appendix H

**FY 2005 Competitions Exceeding the 3-year Average Annual FTE Savings Level (continued)**

Primary Activity Completed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings	Primary Cost-Saving Changes***
<b>Regulatory &amp; Program Management Support Services</b>								
Government Contracting/ Business Development	SBA	3	17	3 months	Standard/ LPTA	\$44,000	\$0.8 M	B
Statistical Support	HHS/ CDC	2	44	3 months	Standard/ LPTA	\$26,000	\$1.2 M	A, B
Claims Examiners	DOL/ OWCP	1	34	2 months	Streamlined with MEO/ Not Applicable	\$40,000	\$1.4 M	B
Regulatory Activities Support	DOI/ MMS	2	10	1 month	Streamlined with MEO/ Not Applicable	\$35,000	\$0.4 M	A, E
Customer Service	DOL/ OWCP	1	20	2 months	Streamlined with MEO/ Not Applicable	\$24,000	\$0.5 M	B
Yellow Book Auditors	DOI/ MMS	2	40	3 months	Streamlined with MEO/ Not Applicable	\$23,000	\$0.9 M	A, E
Beneficiary Inquiry Trend Analysis	HHS/ CMS	1	13	3 months	Streamlined with MEO/ Not Applicable	\$23,000	\$0.3 M	B

Criteria:

Standard Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions (i.e., \$23,000); (ii) at least 10 FTE in the competition; and (iii) at least one private sector offer received.

Streamlined Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions; and (ii) at least 10 FTE in the competition.

**Key**

<b>*Approach for Grouping Activities</b>	<b>**Source Selection Strategy</b>	<b>***Primary cost-saving changes</b>
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTTO = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = reduction in contract support costs G = other

## Appendix H

**FY 2005 Competitions Exceeding the 3-year Average Annual FTE Savings Level (continued)**

Primary Activity Competed	Agency	Approach for Grouping Activities*	FTE Competed	Time Dedicated to Prelim Planning	Competition Type / Source Selection Strategy**	Gross Annual Savings per FTE	Gross Annualized Estimated Savings	Primary Cost-Saving Changes***
<b>Other</b>								
Writer and Editorial Services	HHS/CDC	3	86	4 months	Standard/LPTA	\$49,000	\$4.2 M	A,B
Library Services	HHS/CDC	2	30	4 months	Standard/LPTA	\$31,000	\$0.9 M	A, B
Admin Support	DOL/MSHA	1	33	3 months	Standard/LPTA	\$30,000	\$1.0	E
Admin Support	HHS/CMS	3	28	3 months	Streamlined with MEO/ Not Applicable	\$32,000	\$0.9 M	B

Criteria:

Standard Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions (i.e., \$23,000); (ii) at least 10 FTE in the competition; and (iii) at least one private sector offer received.

Streamlined Competitions: (i) average annual savings per FTE that exceed the 3-year average for all competitions; and (ii) at least 10 FTE in the competition.

**Key**

<b>*Approach for Grouping Activities</b>	<b>**Source Selection Strategy</b>	<b>***Primary cost-saving changes</b>
1 = stand alone 2 = grouped w/same activity at other locations (e.g., regional or enterprise-wide competition) 3 = grouped w/related activities at same or other locations (e.g., business line/business unit competition)	CTTO = Cost-technical tradeoff Phased = Phased Evaluation LPTA = Lowest Priced Technically Acceptable	A = workforce realignment B = reengineered processes C = leveraging technology D = consolidation of operations E = clearer performance standards F = reduction in contract support costs G = other