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DEPOT MAINTENANCE

Issues in Allocating Workload Between the Public and Private Sectors

Statement of Donna M. Heivilin, Director, Defense Management and NASA Issues, National Security and International Affairs Division

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss several defense depot maintenance issues. The Department of Defense (DOD) annually spends about $15 billion for depot maintenance, modifications and upgrades to support aircraft, combat vehicles, wheeled vehicles, ships, and other equipment. For a variety of reasons, DOD is downsizing and must consider how to cost effectively acquire needed depot maintenance activities while supporting industrial base needs in both the public and private sectors. Recognizing that excesses exist, there are differing views on how the workload should be allocated. At the heart of the current debate are questions regarding how much workload should be retained in the public depots as "core" capability, whether a service should be allowed to have its own core capability, and how the remaining non-core workload should be allocated between the public and private sectors.

As you requested, my testimony today will address the following issues:

-- the share of DOD's depot maintenance program spent in the public and private sectors;

-- the use of public-private competition as a tool for allocating depot maintenance workload;

-- observations on the Defense Science Board Depot Maintenance Task Force findings and recommendations; and

-- DOD's transfer of employees, workload, equipment, and facilities at closing maintenance depots.

Before I discuss specifics, let me provide a summary of our views on these issues.

First, the amount of funding going to the private sector is much higher than reported. In recent years, statistics reported by DOD indicate that the mix of funding between the public and private sectors was 65 percent and 35 percent, respectively. However, all data has not been collected and reported uniformly by the services. While a precise estimate is not possible, it appears at least half of the depot maintenance funding currently goes to the private sector.

Second, while we have concerns about implementation of public-private competition, and while the amount of savings is difficult to quantify, we believe the program can reduce depot maintenance costs. Similarly, while industry representatives believe the program is inherently unfair and want it to be terminated, DOD has made progress in making the competitions fair. We do not at this time see sufficient evidence for terminating the public-private

competition program. We believe it should continue to be an option for allocating work when it is likely to result in reduced costs.

Third, while we support many of the task force's findings and recommendations, there are areas where we differ. In particular, we agree there is a need to identify a rational maintenance core policy, but we believe, as DOD does, that this should be done on a DOD-wide basis rather than a service-specific basis. Additionally, we believe the allocation of non-core workload should be based on cost-effectiveness--unless there are overriding circumstances, such as industrial base considerations.

Lastly, at this time none of the maintenance depots identified for closure have closed. DOD appears to have an effective program in place to assist employees in finding alternative employment, although some workers may not be able to get a job with comparable pay. There are some concerns about other aspects of closing the depots.

BACKGROUND

Depot maintenance activities require extensive shop facilities, specialized equipment, and highly skilled technical and engineering personnel to perform major overhaul of parts, completely rebuild parts and end items, modify systems and equipment by applying new or improved components, manufacture parts unavailable from the

private sector that are needed for performing depot maintenance activities, and provide technical assistance by field teams at operational units. At the beginning of the Base Closure and Realignment (BRAC) process, DOD was performing depot maintenance operations at 35 of its own major depots[1] and thousands of contractor facilities. With full implementation of currently approved BRAC decisions, the number of DOD depots will be reduced to 24. Reductions are also taking place in the private sector. However, even after planned closures, there will still be excess capacity in both sectors.

Due to threat changes, new war-fighting plans, budget reductions, and decisions to close excess facilities, DOD has been faced with the critical issue of how to determine the appropriate size of its industrial base in the post cold war era. At the heart of this issue is the controversy over what is the proper workload mix between public depots and private contractors. Attempts to "rightsize" the industrial base have been made through legislation that established percentage workload goals and through programs for competing maintenance workloads between the public and private sectors. Because of the interest and, at times, opposing views on how DOD should handle the industrial base issue, Congress directed DOD to establish a defense and industry task force to "assess the overall performance and management of depot-level activities of the

[1]A major DOD maintenance depot is defined as a facility employing more than 400 personnel in depot maintenance.

Department of Defense." Section 341 of the National Defense Authorization Act for Fiscal Year 1994[2] required a report by April 1, 1994. The ensuing Defense Science Board Task Force on Depot Maintenance Management included a large group of senior representatives from both industry and government. The Deputy Secretary of Defense submitted the task force report to Congress on April 7, 1994.

REPORTED PRIVATE SECTOR SHARE OF DEPOT MAINTENANCE FUNDS IS UNDERSTATED

Statutory and regulatory provisions have been used to address the mix of maintenance workload between the public and private sectors. For example, 1974 legislation established a specific dollar value mix for the alteration, overhaul, and repair of naval vessels. Since then, workload allocation decisions have been influenced by percentage goals found in DOD guidance and legislative mandates. DOD Directive 4151.1, "Use of Contractor and DOD Resources for Maintenance of Materiel," directed the services to plan for not more than 70 percent of their depot maintenance to be conducted in service depots in order to maintain a private sector industrial base. A 1992 amendment to 10 U.S.C. 2466 prohibited the military departments and defense agencies from contracting out more than 40 percent of their depot maintenance work to the private sector.

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[2]P.L. 103-160, sec. 341, 107 Stat. 1547, 1622 (1993).

For fiscal years 1985 through 1992, DOD reported that depot maintenance expenditures were split between the public and private sectors about 65 percent and 35 percent, respectively. However, our work shows that the private sector more likely receives over 50 percent of the DOD depot maintenance budget. We found that a portion of the monies expended on the maintenance workload assigned to the public sector ultimately is contracted out to the private sector for parts and material, maintenance and engineering services, and other goods and services. However, as currently reported, these monies are included in calculating the public sector's share of depot maintenance expenditures. Additionally, some types of depot maintenance activities, such as interim contractor support, were not included in previously reported statistics. We also noted inconsistencies in how the services collect and aggregate data to develop DOD's report to Congress on the public and private mix for depot-level maintenance.

While a lack of uniform and complete data prevented us from precisely quantifying the public-private sector mix, we found several indications that at least 50 percent of the funds ultimately go to the private sector. For example, Army Materiel Command data indicates that about $437 million of the $1.2 billion expended by Army depots in fiscal year 1993--about 31 percent--went to the private sector. About 21 percent of the dollars expended by the Army depots went to buy parts and material and about 10 percent for other goods and services. If these expenditures are added to

the amount of depot maintenance funds spent directly in the private sector, we estimate that about 58 percent of the Army's depot maintenance budget is spent in the private sector.

We also found that about 43 percent of the Air Force Materiel Command's $4.3 billion depot maintenance dollars in fiscal year 1993 went to public depots (excluding parts and other goods and services acquired from the private sector), while about 57 percent went to the private sector. Although we tried to obtain data from all Navy shipyards on fiscal year 1993 expenditures in the private sector, we received data from only one shipyard. Portsmouth Naval Shipyard reported that $81 million of its $399 million expenses for that year went for material and various other goods and services contracted with the private sector. Thus, the private sector received about 20 percent of that shipyard's operating expenses for fiscal year 1993.

The task force report found that the public-private ratio becomes nearly 50-50 when dollars spent at public depots for parts and components--but purchased from the private sector--are included as part of the private sector's share. If included, other goods and services procured from the private sector would increase the private sector's share above 50 percent.

If Congress continues to be interested in quantifying the expenditure of depot maintenance funding in the public and private

sectors, it may wish to consider requiring DOD to revise the manner in which it collects, aggregates, and reports the data.

PUBLIC-PRIVATE COMPETITION AS A TOOL FOR ALLOCATING DEPOT MAINTENANCE WORKLOAD

There is disagreement about using public-private competition as a tool for allocating depot maintenance workload. This program is quite new, except for its use in competing ship repair.

DOD's public-private competition program, which began in 1985 when Congress authorized the Navy to compete shipyard workloads between the public and private sectors, is carried out under various legislative authorities. The 1985 DOD Appropriations Act[3] directed the Navy to test the feasibility of using competition between public and private shipyards as the basis for awarding a portion of the ship overhaul and repair workload. Although the House and Senate Committees on Armed Services initially opposed expanding the competition program to the other services and Navy aviation activities, the National Defense Authorization Act for Fiscal Year 1991 provided for a pilot competition program. Section 314(b) of the National Defense Authorization Act for Fiscal Years 1992 and 1993[4] authorized a new pilot program through fiscal year 1993. The pilot program limited the amount that could be competed to 4 percent of the total depot maintenance program. Arguing that DOD

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[3]P.L. 98-473, 98 Stat. 1904, 1907 (1984).

[4]P.L. 102-190, sec. 314, 105 Stat. 1290, 1336 (1991).

could achieve significant savings by expanding the public-private competition program, DOD officials requested that limitations on the pilot program be removed. Section 354 of the National Defense Authorization Act for Fiscal Year 1993[5] repealed the requirement for the pilot program--clearing the way for DOD to expand its competition program.[6]

Table 1 provides summary information on workloads awarded to the private and public sectors for the 302 competitions that were awarded as of December 31, 1993.[7] Of these, 202 competitions were for the repair of Navy surface ships and submarines. Of the remaining 100 competitions, the Air Force conducted 34; the Army 35; the Navy 24; and the Marine Corps 7.

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[5]P.L. 102-484, sec. 354, 106 Stat. 2315, 2379 (1992).

[6]A more detailed history of the public-private competition program was provided in correspondence to the Chairman, Subcommittee on Defense, Senate Committee on Appropriations (GAO/NSIAD-93-292R, Sept. 30, 1993).

[7]Navy ship awards are included through March 31, 1994.

Table 1: Summary Information on Workloads Awarded to the Private and Public Sectors in the Public-Private Competition Program

Dollars in millions

Service	Number of Workloads Awarded				Value of Workload			
	Private Sector		Public Sector		Private Sector		Public Sector	
	Number	Percent of Total	Number	Percent of Total	Value	Percent of Total	Value	Percent of Total
Air Force	13	38	21	62	$ 64.3	22	$ 232.0	78
Army	15	43	20	57	54.0	54	55.3	56
Navy Aircraft/ Components	10	42	14	58	88.5	23	288.6	77
Marine Corps	1	14	6	86	.4	3	13.9	97
Non-Ship Total	39	39	61	61	207.2	26	589.8	74
Navy Ships	133	66	69	34	1,174.4	50	1,171.6	50
Total	**172**	**57**	**130**	**43**	**$1,381.6**	**44**	**$1,761.4**	**56**

While private companies believe the program is inherently unfair and want it terminated, DOD has made progress in making the competitions fair. Our analysis showed that overall, the private sector won 57 percent of the competitions, which represent about 44 percent of the dollar value. Private shipyards won 91 percent of the 117 surface ship competitions and 32 percent of the 85 submarine competitions. Moreover, private shipyards won all of the more recent competitions. Public shipyards complain that their ability to reduce their overhead is inhibited by the requirement that they maintain industrial base capability to repair items that are being phased out of the inventory or are unusual and not common on most ships.

Public shipyards also contend that they are no longer competitive because they are now required to bid full costs, whereas private shipyards are not so restricted. During the first few years of the competition program (fiscal years 1985 to 1987), public shipyards were not required to bid full costs. That is, if overhead costs were covered by noncompeted work, public shipyards could bid the variable costs of the proposed additional work. The National Defense Authorization Act for Fiscal Year 1989[8] required that public shipyard proposals in public-private competitions include full costs to the government.

We have been asked to look in more detail at the ship and submarine competitions. As a part of our ongoing work, we compared the historical costs of competed submarine repairs in both the public and private sectors. We found that the average cost of performing a competed submarine workload in public shipyards during fiscal years 1988 through 1993 was less than the average cost for competed workloads over the same period, even though private yards had bid lower.

The private sector won only one of the seven Marine Corps competitions. Forty-three percent of the 35 Army competitions went to the private sector--but the dollar value was split about in half. The private sector won 42 percent of the naval aircraft and

[8]P.L. 100-456, 102 Stat. 2054 (1988).

component repair competitions--representing 23 percent of the dollar value of naval aviation competitions.

The Air Force is a strong advocate of public-private competition and its depots have been very successful in winning competitive awards. Air Force depots have won 21 of the 34 Air Force competitions--representing workload valued at $232 million, or 78 percent of the total value of Air Force competition programs awarded as of December 31, 1993. The Air Force reported that awarding these workloads to the next lowest bidder would have increased costs by $108 million. An Air Force depot also won a $61 million Navy depot maintenance competition for the F/A-18 aircraft. The Air Force wants to expand its public-private competition program. Because of questions over whether the Air Force competitions are fair, I am focusing many of my comments today on our analysis of this program.

To gain further insights into the Air Force's competition program, we examined the 28 competitions in which the Air Force bid on a workload. We analyzed 134 bid proposals submitted for these competitions. The difference between the winning bid and the highest losing bid exceeded 300 percent in several competitions. Losing bids ranged from 9 percent less to 496 percent more than the winning bid. In competitions won by the public sector, private offerors' final bids averaged 150 percent more than the winning depots' bids.

Noting the large percentage by which Air Force depots were winning many of their competitions, private sector companies--particularly original equipment manufacturers that have higher overhead costs and are more heavily facilitized than service-oriented companies--believe this is because the Air Force depots are not including all their costs. When we questioned Air Force officials about the reasons for these variances, they noted that industrial improvements to Air Force depots during recent years have contributed significantly to efficiency and productivity. For example, one Air Force depot we visited had reduced the number of hours required to accomplish programmed depot maintenance tasks by applying state-of-the-art equipment, tooling, and processes. These included robotic media blast technology to remove paint from aircraft surfaces and a more efficient industrial production line.

We noted in comparing proposals for several competitions that bidders appeared to interpret differently the tasks required to accomplish the work. Air Force officials acknowledged the difficulty in writing a precise statement of work for maintenance competitions and conceded that, as a result, bidders often had widely varying interpretations as to the tasks required and the time needed to perform them. Air Force depots that have maintained the equipment previously may better understand what is actually required. Contracting officers said that the difficulty in writing a precise statement of work also adversely affects repair

competitions restricted to the private sector--frequently leading to contract revisions and cost overruns.

In two competitions, the Air Force bid the lowest cost, but cost comparability adjustments[9] to its bids increased the evaluated prices, resulting in the awards going to private sector bidders. We observed that, over time, the relative significance of cost comparability adjustments has increased. For the first half of the competitions, Air Force depots' bids were adjusted upwards, for comparability, an average of 3.5 percent of the amount bid. In contrast, adjustments for the second half averaged 7.6 percent. As additional comparability factors were added, their share of the bid prices increased.

In the 60 proposals we reviewed where data on labor hours were provided, the most significant cause for the difference between the winning and losing bids was the number of direct labor hours proposed. Winning offerors bid an average 77 percent fewer labor hours than the losing offerors. On average, the closest competitor bid 32 percent more hours than did the winner. We reviewed Defense Contracting Audit Agency reports on some of these competitions as

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[9]To level the playing field between public and private sector bidders, DOD uses comparability factors to reflect cost elements not included or fully included in the proposed bid prices. For public sector bids, comparability factors are used to account for elements not included in the end-item cost that is charged the customer but are paid for by other appropriation accounts. These factors include such items as unfunded civilian retirement liability, unemployment compensation, and military support costs.

well as the cost-realism analyses performed by the procuring activities. The Air Force depots' estimates for labor hours were reviewed and the final estimates accepted as reasonable. Nonetheless, it is not possible to determine if the performing depots will accomplish the work for the labor hours bid until actual performance data is available and evaluated. This analysis should be facilitated by the Air Force's implementation of a Depot Maintenance Performance Tracking System. However, post award contract administration performed by the Defense Contract Management Command and independent post award audits would also be helpful in evaluating the results of these competitions.

OBSERVATIONS ON DEPOT MAINTENANCE TASK FORCE REPORT

You asked that we comment on the findings and recommendations of the task force report provided to Congress on April 7, 1994. We have not reviewed the report in depth, and are focusing our comments on the task force's recommendations that (1) core be implemented as service-specific; (2) selected non-core workload be allocated to certain capabilities in the private sector, and the remaining non-core workload be competed in the private sector; and (3) public-private competition be eliminated.

In transmitting the report to Congress, the Deputy Secretary of Defense generally agreed with the task force's recommendations, except for the recommendation that core should be service specific.

The Deputy Secretary noted that core will be DOD-wide, thus providing greater flexibility in eliminating duplicate resources, increasing interservicing, and implementing efficiency measures.

Service versus DOD Core

DOD established a methodology for determining the capabilities needed to maintain mission essential weapon systems--referred to as core workload--to be used in Joint Chiefs of Staff contingency scenarios.[10] Core capabilities and requisite workloads, by definition, are generally to be maintained in DOD depots, although some core capability could logically exist outside of DOD depots--in the private sector.

The task force found that readiness responsibilities contained in law require service depots to provide service core responsibilities--rather than relying on another service's depot for this support. Task force members found that current DOD policy was not definitive on the issue of whether core requirements should be service-specific or consolidated as DOD core. The majority of the task force held the position that core should be service-specific and commented in the report that "such an approach is essential to support military service title 10 readiness

[10]At the direction of Office of the Secretary of Defense (OSD), each service used the approved methodology to compute its core depot maintenance requirements. OSD is now reviewing the results, but has not yet approved the core workloads.

responsibilities."[11] Conceptually, under a service core concept, each service would be allowed to retain its own core workload. Non-core workload would then be transferred to the private sector, either allocated or competed. The Air Force did not agree with the majority opinion. Air Force officials noted that core should be established and maintained in the most cost-effective and efficient public depots; thus, it should be based on a DOD-wide rather than a service-specific basis.

The task force concluded that, in implementing the core policy, excess capacity in the depot system should be eliminated. However, the task force indicated that substantive challenges existed in transitioning the current DOD depot infrastructure to one based on the core concept and that conflicts with the current direction will arise. For instance, the task force suggested that ongoing efforts to consolidate the depot maintenance of tactical missiles at one depot may be inconsistent with industrial base issues--including the core concept.

We support the task force's findings and recommendations for implementation of a rational core policy, but disagree that the core must be service specific. Assessing and maintaining the

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[11]DOD activities are required under title 10 to "maintain a logistics capability...to ensure a ready and controlled source of technical competence and resources necessary to ensure effective and timely response to a mobilization, national defense contingency situations, and other emergency requirements." 10 U.S.C. 2464(a).

health of the total DOD industrial base is a key issue facing the country as funds are decreasing for both weapons production and maintenance. Implementing a rational DOD policy on core is an essential step for developing an effective strategy for allocating depot maintenance workload between the public and private sectors.

We believe core requirements should be defined by each service. However, we find no persuasive argument that the performance of the core workload should be performed in a service-specific depot. Prior DOD directives defining core requirements have clearly noted that core workload could be assigned to any DOD component.

Defining core on a DOD basis encourages the potential benefits of increased consolidations and interservicing within the DOD depot maintenance system. Interservicing involves transferring work on comparable systems to the depot of another service to take advantage of economies of scale and to avoid the cost of maintaining unnecessary duplicative capabilities. Since as far back as 1958, the Congress, GAO, and internal DOD studies have repeatedly pointed out that (1) the military services accomplish much less interservicing than they can and should and (2) this condition exists primarily because of service parochialism.[12] In June 1990, the Deputy Secretary of Defense called for increasing

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[12]This point was well chronicled in our testimony, "Depot Maintenance: Issues in Management and Restructuring to Support a Downsized Military" (GAO/T-NSIAD-93-13, May 6, 1993), House Committee on Armed Services, Subcommittee on Readiness.

the amount of interservicing to at least 10 percent by 1995. Between fiscal years 1990 and 1992, DOD increased the amount of interservicing from about $285 million to about $430 million, despite significant reductions in the services' depot maintenance programs. This represents 3.5 percent of the depot maintenance work in fiscal year 1990 and over 6 percent in fiscal year 1992.

As indicated by the following examples, current workload planning suggests that the amount of depot maintenance work interserviced will continue to rise over the next few years. The Army estimates that it will interservice about $58 million with the Air Force as a result of public-to-public competitions. Likewise, the Navy plans to interservice about $61 million with the Air Force for repairs of some of its F/A-18 aircraft. In addition, DOD plans to consolidate tactical missile maintenance at the Letterkenny Army Depot. In 1993, the Joint Chiefs of Staff Depot Consolidation Study noted that there are many more opportunities to reduce DOD maintenance costs through increased interservicing. That same year, the House and Senate Committees on Appropriations encouraged additional interservicing, noting that interservicing should be taken into consideration during the 1995 BRAC process.[13]

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[13] H. Rept. 254, 103d Cong., 1st sess. 61-62 (1993) and S. Rept. 153, 103d Cong., 1st sess. 35 (1993). (Reports accompanying H.R. 3116, Dept. of Defense Appropriations Bill, 1994.)

Allocating Non-Core Workload to the Private Sector

The task force also recommended that DOD allocate selected non-core workload to private sector companies to help preserve needed private sector industrial base capabilities. The intent of this recommendation appears to be to target workload (most likely for applying modifications and upgrades) to manufacturing companies that, because of their overhead and production-oriented facilities, are not likely to be competitive with public depots or with other private sector companies that concentrated on repair and overhaul. Once direct allocations are made, the remaining non-core workload would be competed within the private sector. The task force did recognize that by exception, some non-core workload will invariably fall to the public depots because the private sector will not or cannot compete. The task force may have been overly optimistic in its views that most of the remaining non-core workload can be competed in the private sector. In view of the amount of sole-source contracting used by the services in acquiring depot maintenance services and the difficulties likely to be faced in contracting for workload that includes many individual items in few quantities, with infrequent and uncertain repair requirements, we believe that the amount of workload that can be successfully competed may be far more limited.

We generally agree with the task force's position that, as an industrial base issue, DOD may want to help preserve critical

capabilities in the private sector with direct allocations of maintenance workload. In those situations where a policy decision is made that research and development and procurement dollars are insufficient to maintain a defense contractor that is essential to the industrial base, other sources of funding must be made available for that purpose. However, like public-private competition, increased use of the private sector for maintenance support is a controversial issue because, as the DOD industrial base is downsizing, both sectors are seeking work traditionally done by the other, and as operations and maintenance dollars are shrinking, operational commanders are looking for the least costly source of obtaining required maintenance services.

Advocates for increased private sector involvement argue that "critical" production skills must be maintained and that a shift towards the private sector would help sustain the production base during a period of much reduced weapons procurement. They also argue that the private sector can provide depot maintenance at lower costs than the public sector. In contrast, opponents to increased private sector involvement contend that the private sector already designs and manufactures the kits used in system modifications and upgrades. They note that contracting with the private sector for the application of modifications is not likely to add significantly to maintaining design and production capability in the private sector. They also believe that applying modifications and upgrades in public depots at the same time other

depot maintenance work is being performed reduces the amount of time weapon systems are out of service, eliminates duplicative tasks, and decreases overall costs.

We believe the marginal amount of funding that would be available to the private sector is likely to have little impact given the overall industry size. Consequently, increasing the amount of maintenance work available to the private sector is likely to have little significant impact on maintaining research and development and production capability in the private sector unless the funding is targeted. For fiscal year 1993, DOD spent about $15 billion for depot maintenance operations, including modifications and upgrades. Based on our projections, 50 percent of these dollars may already go to the private sector. In reality, in an industry where prime defense contractor awards in 1993 were $131 billion dollars,[14] it is not likely that contracting some portion of the remaining $15 billion would make a significant impact unless targeted via direct allocation rather than being competed.

The task force did not address the determination of how selected non-core work should be directed to the private sector and in what amounts. These could be very volatile issues and, given the limited amount of funding that is likely to be available for this purpose, it will be essential to specifically identify those

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[14]Department of Defense Prime Contract Awards By State, Fiscal Year 1993. DOD, DIOR/PO9-93/02(Washington, D.C.: GPO, 1993), p.2.

industrial capabilities in the private sector where depot maintenance workloads should be directed to support overall industrial base needs. Like the public sector, further reductions in excess capacity for production in the private sector will be necessary. Therefore, if certain capabilities need to be preserved in the private sector, rational policies and procedures are needed that will identify what maintenance workload allocations should be directed to specific companies for industrial base considerations, without regard to whether or not the work could be done more cheaply by a public depot or another commercial company.

Additionally, we are concerned that a policy of turning over the remaining non-core work to the private sector could conflict with the long-standing policy of awarding work to the most cost-effective provider. The latter policy is endorsed in 10 U.S.C., section 2462, and by Office of Management and Budget (OMB) Circular A-76 which, in principle, provide that DOD should rely upon the private sector for supplies and services whenever the private sector is less costly than the public sector. A recommendation to offer all non-core workload to the private sector without a determination that the work can be done more cheaply in the private sector appears to conflict with this approach. In our opinion, DOD should generally analyze the non-core workload to determine cost-effective buys. Public-private competition is not the only vehicle for this analysis. Other mechanisms are available such as OMB Circular A-76 cost comparisons and the decision-tree logic found in

DOD Directive 4151.1, "Use of Contractor and DOD Resources For Maintenance of Materiel."

ELIMINATION OF DEPOT MAINTENANCE COMPETITION BETWEEN SECTORS

The task force envisioned that, with sizing to core requirements, the need for public depots to compete for maintenance work would be eliminated. The task force recognized that certain situations could occur where public-private competition would be necessary. The task force report provided little insight regarding how much of DOD's non-core workload can realistically be contracted out more cheaply than it can be done in-house given considerations such as the extensive amount of excess capacity currently available in the public sector, the large amounts of workload whose requirements are sporadic and in very limited quantities, and the inability to compete much of the workload because of considerations such as proprietary data and older technologies.

The task force identified several concerns with continuing the competition program. For example, efficiencies achieved would not be as likely in the future because the costs of conducting competitions were high and the payoffs would be progressively smaller as workloads were recompeted. Furthermore, DOD has other mechanisms for controlling costs and improving productivity. The task force also questioned whether results of prior competitions were meaningful, DOD's ability to create a level playing field, and

the divisive nature of pitting the services against commercial sources or each other. The Air Force dissented with the majority position. It believes if the source of repair is determined by competition, depot maintenance costs will be lower.

We agree with some of the task force's concerns about DOD continuing its public-private and public-public competition programs. A competition program alone should not be used to eliminate inefficiencies in the depot maintenance infrastructure. A "winner-take-all" program may not promote a healthy industrial base, particularly where DOD has created a unique business environment with the influences of government procurement regulations and a single buyer market structure.

On the other hand, while we recognize that improvements are needed in the implementation of the public-private competition program, we do not believe there is sufficient evidence to support eliminating the program. Although competition for depot workload often has been controversial, it has contributed to controlling depot costs. A public-private competition program should not be burdened with artificial goals. We believe that public-private competition should remain as an option for DOD activities to use when selecting source of repairs.

OBSERVATIONS ON DOD'S DEPOT MAINTENANCE CLOSURES

Since 1988, three BRAC Commissions have recommended realignments and closures of DOD's public depots. Table 2 shows the depots recommended for closure and the dates established for closing.

Table 2: Maintenance Depots Recommended For Closure

BRAC Year	Service	Depot Maintenance Activity	Planned date of closure
88	Army	Lexington-Bluegrass Army Depot	09/94
91	Army	Sacramento Army Depot	10/95
	Navy	Philadelphia Naval Shipyard	09/96
93	Navy	Charleston Naval Shipyard	04/96
	Navy	Mare Island Naval Shipyard	04/96
	Navy	Alameda Naval Aviation Depot	09/96
	Navy	Norfolk Naval Aviation Depot	09/96
	Navy	Pensacola Naval Aviation Depot	09/95
	Army	Tooele Army Depot	09/96
	Air Force	Aerospace Guidance and Metrology Center, Newark Air Force Base	09/96

The first depot scheduled to close is the Lexington-Bluegrass Army Depot, in September 1994. The remaining nine depots are scheduled to close over the next 2-1/2 years. Although seven of these depots were identified by the most recent BRAC and are less than a year into the implementation process, our work indicates several emerging issues.

First, DOD has programs to assist employees affected by depot closures to obtain other employment. For instance, under DOD's priority placement program, employees at closing depots can register for positions within DOD and receive priority in filling certain vacant DOD jobs. DOD officials are optimistic that most employees will find jobs, but many may have to move if selected for vacant DOD positions. Employees choosing to remain in their local community may have difficulty obtaining employment with pay comparable to that in the depot.

Second, the National Defense Authorization Act for Fiscal Year 1994,[15] subtitle A of title XXIX of 107 Stat. 1909, "Base Closure Community Assistance"--referred to as the Pryor Amendment, authorized conveyance of real and personal property at closing depots to local redevelopment authorities. Shipyard officials believe that conveying real and personal property to local redevelopment authorities may not be completed by planned depot closure dates. Also, they anticipate that the costs of preserving and maintaining equipment and facilities until turned over to the local community may be high. Some depot officials also are confused as to the definition of what constitutes personal property under the Pryor Amendment. DOD implementing guidance, published on April 6, 1994, may help resolve some of these concerns.

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[15]P.L. 103-160, 107 Stat. 1547 (1993).

Third, DOD may incur unnecessary costs by moving maintenance support capability associated with the repair and maintenance of obsolete items from closing depots to other sources of repair. This possibility highlights the need for DOD's inventory managers to evaluate and update inventory records to identify items that are obsolete and no longer require maintenance support. Maintenance support for these obsolete items should be eliminated and not transferred.

Fourth, some depots may not be receiving sufficient funding to accomplish the closures as scheduled. Depot officials said they received less funding in fiscal year 1994 than they required to develop and implement closure plans. They also expressed concern that funds for related closure actions would not be available as needed.

Fifth, the Air Force plans to convert its Aerospace Guidance and Metrology Center from government to private ownership through privatizing the workload in place. Emerging problems include whether (1) the Air Force can compete workload when manufacturer proprietary rights are involved, (2) contractors will be interested in performing the work at the Center, and (3) adequate funds will be available to transfer the activity to private ownership. Also, industry representatives have pointed out that retaining the workload at the same facility will not reduce excess depot capacity.

In conclusion, Mr. Chairman, DOD faces many challenges in effectively managing its depot maintenance program. These involve a complex set of interactive issues that include both cost and industrial base considerations. Critical decisions must yet be made regarding the appropriate size of the DOD industrial base including how workload will be allocated between the public and private sectors, how to eliminate excess depot capacity, whether to have a DOD or service core, whether to retain public-private competition, and how to most effectively use interservicing to consolidate similar workloads and reduce redundancy in maintenance capability. There may be certain cases where, because of industrial base or readiness considerations, DOD may choose a particular maintenance workload allocation that results in certain cost inefficiencies. We believe this may be appropriate, but the cost of these policies should be known. We look forward to continuing to support your committee as it deliberates these critical issues. I am prepared to respond to your questions at this time.

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