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Big Savings Expected from Competitive Sourcing Initiative

Contracting Overhaul Expands Public-Private Competitions for Providing Government Services

Washington D.C. — The Bush Administration today acted to shorten and simplify the process through which private sector companies compete to provide public services to citizens. It is the first major overhaul since 1983, and works to level the playing field for all bidders by creating a fair and well-understood process while eliminating excessive delays that plagued the process in the past. Today's action ends a two-year effort to revise the process based on continued discussions and negotiations with stakeholders and a formal public notice and comment period.

“For quality service at the best price, competition beats monopoly every time. It is an established fact that fair competition can save taxpayers an average of 30 percent, whether the work is ultimately done in-house or by outsiders. Whoever wins the competitions, we can be confident that taxpayers will,” said OMB Director Mitchell E. Daniels, Jr.

The government currently spends hundreds of billions of dollars each year on commercial services provided by 850,000 government employees. These services include everything from engineering, laundry, computer support, custodial services, fee collection at National Parks, eyeglass-making, landscaping, as well as other activities commonly available in the private marketplace.

Today's action streamlines a process by which the private sector can compete fairly for this work. Government workers, who have built-in advantages of knowing the work and the system, are encouraged to compete and are expected to win a good share of the competitions.

“Those providing top level service at the best value will win every time,” said Angela Styles, Administrator of OMB's Office of Federal Procurement Policy and point person for the initiative.

- Independent studies by the General Accounting Office (GAO) and the Center for Naval Analyses show that holding these competitions saves taxpayers an average of 30 percent.
- Studies show when the private sector does win a public-private competition, a small, women-owned or minority-owned business wins 60 percent of the time.
- Today's action cuts a significant number of pages from the previous A-76 circular, including the elimination of an 18-page definition of what is “inherently governmental.” It also reduces the time it takes to hold competitions from as long as four years to a maximum of one.
- This is the first major revision of the A-76 circular since 1983. The previous Administration made moderate adjustments in 1996 and pushed to increase the number of competitors at the Department of Defense. Today, DoD conducts the most competitions among all federal departments and agencies.

For more information on competitive sourcing, visit www.omb.gov, or contact OMB Communications at (202) 395-7254.

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Background and Facts on Competitive Sourcing and Revisions to Circular A-76

Since taking office, President Bush has fostered the building of a citizen-centered, results-oriented, and market-based government. In August 2001, the Administration released the President's Management Agenda, a plan to reform the federal government through five government-wide initiatives. Competitive sourcing is one of the five initiatives.

What does competitive sourcing do?

It helps improve the performance and efficiency of commercial activities performed for the federal government. Competitions are held in which the costs and overall value of services are compared among private sector and federal government providers. It does not matter who wins – the desired outcome is the delivery of better services at the best value for the American taxpayer.

What is the status of the competitive sourcing initiative?

Over the past two years, 26 agencies have been asked to determine which activities performed by government personnel should be competed with the private sector, with the option of using commercial sources or in-house government facilities and personnel to perform the work. Most federal agencies have now built an infrastructure to conduct such public-private competitions. In many cases, typical competitions would look like the pair below:

- The Department of Energy has opened for competition services provided by graphics designer, computer, and financial services personnel.
- Since every major airline contracts with the private sector to receive weather reports, some 2,700 flight services employees at the Federal Aviation Administration (FAA) are now taking part in a public-private competition. Previously, these federal workers would provide weather reports to private pilots without the benefit of having had a competition.

In fact, much remains to be done to hold more competitions across the government. Competitive sourcing is the only initiative in the President's Management Agenda in which every federal agency receives a "Red" grade for status (the lowest score). A major reason for the difficulties is a complex set of rules governing these competitions found in a document known as Circular A-76.

What is Circular A-76?

Circular A-76 is a set of policies and procedures to help determine whether public or private sources will undertake the federal government's commercial activities and services, ranging from software consulting, research and lab work to facilities management.

What is the history of Circular A-76?

The roots of Circular A-76 can be traced to the former Bureau of the Budget's Bulletin 55-4 (issued January 15, 1955), which stated that the federal government would "not start or carry on any commercial activity" that the private sector could do. Revisions have been made periodically ever since.

The policy first appeared in its current “A-76” form on March 3, 1966. It has been changed three times: in 1967, 1979, and 1983. In 1979, a “Supplemental Handbook,” which spells out the complex details on holding competitions, was issued. The handbook also has been revised three times (first in 1983, then in 1996, and again in 1999), and will be abandoned as part of this package of changes.

What will the Administration’s revisions do?

The revisions encourage department and agency managers to significantly expand public-private competitions for in-house or outside activities currently taking place without the benefit of rival service providers. Federal law already requires agencies to publicly identify activities that are commercial along with those that are inherently governmental in nature. For business activities performed for the federal government, the revised Circular A-76 will make complex competitions easier while also reducing the time it takes to hold them from as long as four years to one.

When do the revisions go into effect?

These revisions to Circular A-76 take effect immediately.

Which entities does the revised Circular A-76 apply to?

The circular applies to all executive branch agencies.

What are the main reasons behind the latest set of changes?

The process for holding competitions has become inordinately long and complex, and actually discourages them from taking place. For competitions that do occur, they can last as long as four years. Moreover, accountability for delivering promised results is limited. Neither the government nor private sector providers of services operate with the proper mix of incentives to ensure sound performance. This new process holds both public and private sector service providers to the same performance benchmarks.

What benefits does the Administration expect from these changes?

Studies and real-world experience show that competition will improve the performance and effectiveness of services provided on the federal government’s behalf. These changes are designed to give agencies the best tools for doing their jobs well, while delivering the best value possible to citizens. Anticipated savings will offer additional benefits. Although figures vary by case, competitions consistently have amounted to more than 30 percent in savings, according to General Accounting Office and Center for Naval Analysis evaluations.

Case Studies Show Savings of Competition

Competition: Transient Alert (Aircraft Maintenance)

Location: McChord AFB, WA

When: Competition completed 6/91, contract began 10/91. Re-competed in 1995.

Functions: refueling, parking, pre-flight checks, routine flight-line maintenance of all transient aircraft

Pre-Competition Cost: \$9.1 million (estimated baseline cost over the first solicitation period).

Competition Results: \$2.9 million, outside contractor win (estimated contract cost including bid and estimated costs to the government). In-house bid was \$4.4 million, still a significant savings.

Savings:

- 68% Expected savings at time of competition
- 66% Observed savings over first solicitation period
- 66% Effective savings over first solicitation period.

Performance: Functional managers were very satisfied with contract performance. Contracting officer was satisfied with performance.

Competition: Base Operations Support

Location: Goodfellow AFB, TX

When: Solicitation cancelled 6/94, work began 10/94.

Functions: Facility maintenance and repair (excluding family housing maintenance), motor vehicle operations and maintenance, supply operations, limited grounds maintenance.

Pre-Competition Cost: \$59 million (estimated baseline cost over first solicitation period).

Competition Results: \$41 million, retained in-house. The outside contractor bid was \$38 million, (estimated contract cost including bid and estimated costs to the government), but application of 10% conversion differential resulted in an in-house win.

Savings:

- 31% Expected savings at time of competition**
- 38% Observed savings over first solicitation period**
- 46% Effective savings over first solicitation period.**

Performance: Customers were very satisfied with performance.

Competition: Printing of FY 2004 Budget of the U.S. Government

Location: Washington, D.C.

When: Competition completed 12/02

Functions: Printing of four of five volumes of the President's FY 2004 Budget Request to Congress, including color

Pre-Competition Cost: \$505,370

Competition Results: \$387,000, retained in-house.

Savings: 23.4% savings on a comparable basis over costs for FY 2003 Budget

Performance: Customers and contracting officers were very satisfied with contract performance. Functional managers were satisfied with performance.

Competition: Visual Information Services

Location: Fort Rucker, AL

When: Competition completed 2/91, contract began 10/91. Re-competed in 1995 and 1999.

Functions: Construction and design of artwork, exhibits, models, and signage for base use, photographic services, television, audio, and other visual information services.

Pre-Competition Cost: \$14.3 million (estimated baseline cost over the first solicitation period).

Competition Results: \$5.4 million, outside contractor win (estimated contract cost including bid and estimated costs to the government). In-house bid was \$8.4 million, still a significant savings.

Savings: 62% Expected savings at time of competition
59% Observed savings over first solicitation period
61% Effective savings over first solicitation period.

Performance: Customers and contracting officers were very satisfied with contract performance. Functional managers were satisfied with performance.

Competition: Military Family Housing Maintenance

Location: Davis-Monthan AFB, AZ

When: Competition completed 12/95, contract began 1/96.

Functions: Change of occupancy maintenance, painting, HVAC, plumbing, minor repair of roofs, and inspections.

Pre-Competition Cost: \$6.3 million (estimated baseline cost over the first solicitation period).

Competition Results: \$5.1 million, outside contractor win (estimated contract cost including bid and estimated costs to the government). In-house bid was \$5.7 million, still a significant savings.

Savings: 19% Expected savings at time of competition
 16% Observed savings over first solicitation period
 24% Effective savings over first solicitation period.

Performance: Customers were very satisfied with contract performance. Contracting officers and functional managers were satisfied with performance.
