United States General Accounting Office

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Report to Congressional Requesters

July 1997

NAVY DEPOT MAINTENANCE

Privatizing Louisville Operations in Place Is Not Cost-Effective

GAO/NSIAD-97-52

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-275524

July 31, 1997

The Honorable Herbert H. Bateman
Chairman
The Honorable Norman Sisisky
Ranking Minority Member
Subcommittee on Military Readiness
Committee on National Security
House of Representatives

As requested, we are providing a follow-up to our September 1996 report on the Navy's preliminary cost comparison of privatizing-in-place maintenance workloads at its Louisville, Kentucky, depot with transferring the workloads to other Navy facilities.

This report provides the results of our review of the Navy's final cost analysis and early contractor cost data through May 1997. Our objectives were (1) to determine whether privatizing the depot maintenance workload in place at Louisville is more cost-effective than transferring the workload to other DOD facilities and (2) to review the practicability of transferring the Louisville workload to other defense commercial contractor facilities.

Background

During the 1995 Base Realignment and Closure (BRAC) process, the Department of Defense (DOD) recommended that the Louisville depot be closed and its workloads transferred to several DOD facilities. The naval gun repair workload was projected to transfer to the Norfolk Naval Shipyard, Virginia; the Phalanx ship close-in-air defense system to the Naval Surface Warfare Center, Crane, Indiana; and the engineering support functions to the Naval Surface Warfare Center, Port Hueneme, California.

During the BRAC Commission's review of DOD's recommendations, the city of Louisville proposed that DOD privatize the depot workload in place. The Commission found that the Navy's savings estimate did not include all costs at the Norfolk Naval Shipyard and that an additional $18 million could be required. Further, the Commission found that the Navy did not include $13.4 million in closure-related moving costs and that these additional costs could increase the one-time cost to close to $136 million. While the additional closure costs could extend the closure payback period from 3 to 4 years, the Navy's cost estimate supporting closure was accepted by the Commission. The Commission also found that the gun systems engineering functions at Louisville are consistent with operational requirements, and that the maintenance and overhaul functions performed at the facility have contributed substantially to the effectiveness of the facility in serving the Department of the Navy. The Commission recommended the following:

"close the Naval Surface Warfare Center, Crane Division Detachment, Louisville. Transfer workload, equipment and facilities to the private sector or local jurisdiction as appropriate if the private sector can accommodate the workload onsite; or relocate necessary functions along with necessary personnel, equipment and support to other naval technical activities, primarily the Naval Shipyard, Norfolk; Naval Surface Warfare Center, Hueneme, California; and the Naval Surface Warfare Center, Crane, Indiana."

Subsequently, the Navy made a preliminary decision to privatize-in-place the Louisville depot's operations, with some Navy program management positions remaining at the privatized facility. The decision was made to retain the field engineering support function at the privatized Louisville depot.[1]

On the basis of our review of the Navy's preliminary cost analysis, we reported in September 1996 that privatization-in-place did not appear to be the most cost-effective approach given excess capacity in DOD's depot maintenance system and in the private sector.[2] We stated that privatization-in-place would not reduce excess capacity and that such privatization, if not effectively managed, including the downsizing of remaining depot infrastructure, could exacerbate inefficiencies inherent in underutilized depot maintenance capacity. For example, the Norfolk Naval Shipyard and Crane Naval Surface Warfare Center, the primary depot facilities that could have received the Louisville workloads, are expected to have 7.1 million and 1.8 million direct labor hours of excess capacity in 1999.

According to industry representatives, the private sector has been reducing its excess capacity through mergers, closures, and consolidations, but DOD has not made comparable reductions in its infrastructure. For example, a recent Defense Science Board study team concluded that privatization-in-place should be avoided, since it tends to preserve excess capacity. A privatization task force comprised of top

[1]The 170 Navy civilians in the Louisville engineering support pool are assigned to the Naval Surface Warfare Center, Crane Division.

[2]Navy Depot Maintenance: Cost and Savings Issues Related to Privatizing-in-Place at the Louisville, Kentucky, Depot (GAO/NSIAD-96-202, Sept. 18, 1996).

executives from the aerospace industry that was formed in 1996 by the governor of California concluded that privatization-in-place

> "inhibits the realization of cost savings intended from base closures and the performance goal improvements that privatization is intended to achieve. Privatization-in-place, therefore, does not solve the excess capacity problem within either the public or private sector of the defense industrial base."

Our September 1996 report was based on preliminary Navy estimates that were updated just prior to contract award. As you are aware, the Secretary of the Navy notified Congress on June 13, 1996, that as provided for in the Competition in Contracting Act, the Navy intended—in the public interest—to award non-competitive contracts to the two defense contractors selected by the Louisville local redevelopment authority. On July 19, 1996, the Navy awarded contracts to Hughes Missile Systems Company for the Phalanx ship close-in-air defense system and to United Defense Limited Partnership for gun repair workloads.

Results in Brief

The Navy's privatization-in-place of the workloads at the Louisville depot, without reducing excess capacity at its remaining depots, does not appear to be as cost-effective as transferring the workloads to other underutilized Navy facilities. Our analysis shows that the Navy's final cost comparison of the proposed privatization-in-place versus the transfer of workloads to other Navy facilities understated the annual savings from transferring the work and overstated the one-time transfer cost. We estimate the one-time transition cost for transferring the workload is about $10 million less than the Navy projected. Using our estimate, the cost for the transfer option is about $234 million, or about $100 million more than the privatization-in-place option. We estimate annual savings of $29.9 million for the transfer option, or about $20.6 million more than the Navy estimated. Using our estimates, the transfer option would pay back the additional one-time transition cost in less than 3.5 years, compared to the additional 12-year payback period computed using the Navy estimates.

The Navy's analysis recognized that transferring the workloads to underutilized facilities would reduce the overhead cost for each production unit. However, the Navy's analysis applied per-unit savings only to the workloads transferred and not to existing workloads at receiving locations. Our analysis applies overhead per-unit savings to workloads at the receiving locations as well as for those being transferred. We estimate that transferring the workload rather than privatizing-in-place would have resulted in savings of about $48.6 million over the first 5-year period. Further, after that time, transferring would result in annual savings of about $29.9 million.

One of the contractors at Louisville could take over part of Louisville's workload at another industrial activity it operates that has significant excess capacity. The United Defense Limited Partnership has the capability and the capacity to handle the gun repair workload at a government-owned, contractor-operated facility in Fridley, Minnesota, which currently manufactures gun systems. We estimate that transferring the gun repair workload to the Fridley facility could result in annual savings of about $9.2 million on the consolidated Navy workloads performed at that facility. Navy officials stated that the Navy intends to divest itself of this facility. Officials at the Hughes Missile Systems Company in Tucson, Arizona, said they could not handle the other Louisville workload—the Phalanx close-in-weapon system—in existing facilities without incurring large infrastructure costs.

We recently issued a report identifying DOD infrastructure activities as a high-risk area.[3] Our primary concerns related to inefficient business processes and excess capacity. We pointed out that DOD needs an overall plan for addressing the problem. The situation at Louisville is representative of this overall concern.

Annual Recurring Costs Make Privatizing-in-Place the Less Cost-Effective Option

Our analysis of the Navy's comparative cost study shows that the Navy overstated transfer cost by about $10 million and understated annual recurring savings by about $20.6 million. Using the revised data, we estimate that privatizing-in-place the Louisville depot workload will cost about $48.6 million over the 5-year contract period, rather than save $63.7 million as the Navy estimated. Further, beyond the initial 5-year contract period, we estimate that transferring the workload would result in additional annual savings of at least $29.9 million. The actual annual savings could be higher or lower depending on future workloads and capacity utilization at both Louisville and the Navy shipyards and warfare centers.

Analysis of Navy Study

The Navy's comparative cost analysis of the workload transfer and privatization options considered annual recurring and one-time transition cost elements. The Navy reported that transferring the workload to other

[3]High-Risk Series: Defense Infrastructure (GAO/HR-97-7, Feb. 1997).

depots would result in higher annual savings, but would require larger one-time transition costs. Based on this information, the Navy estimated that it could save about $63.7 million over the 5-year contract period by privatizing-in-place rather than transferring the workloads to other depots, as shown in table 1.

Table 1: Summary of the Navy's Cost Analysis of Transfer and Privatization Options Over the 5-Year Contract Period

Dollars in millions

	Cost by closure option		
Type of cost	**Transfer**	**Privatization**	**Difference**
One-time	$243.6	$133.4	$110.2
Annual recurring	427.4	473.9	–46.5
Total	**$671.0**	**$607.3**	**$63.7**

Source: Navy cost analysis.

Using this data, it would take 12 years to pay back the one-time cost difference.

However, we found that the Navy's cost analysis:

- overstated one-time transition costs to transfer workload to other depots by $9.4 million and
- excluded $20.6 million in annual recurring savings at the receiving depots ($103 million over the 5-year contract period).

Using this data, we estimate that the Navy would save about $48.6 million over the 5-year contract period by transferring the Louisville workload to other depots, as shown in table 2.

Table 2: Our Cost Analysis of Transfer and Privatization Options Over the 5-Year Contract Period

Dollars in millions

	Cost by closure option		
Type of cost	**Transfer**	**Privatization**	**Difference**
One-time	$234.2	$133.4	$100.8
Annual recurring	324.5	473.9	–149.4
Total	**$558.7**	**$607.3**	**–$48.6**

Using this data, we estimate the cost of transferring this work would pay back the one-time cost difference in about 3.5 years.

One-Time Transition Costs to Transfer Overstated

Transition costs are one-time, up-front costs that are incurred to disestablish the Louisville facility as a government-owned and operated activity and to establish operations to perform the required work under the privatization-in-place or transfer options. The key transition cost elements for the privatization-in-place option were personnel separation and relocation costs and civilian retraining, administrative, and environmental costs. The key transition cost elements for the transfer option were personnel separation and relocation costs; equipment relocation and military construction costs; and other property transportation, administrative, repair process documentation, and environmental costs.

The Navy estimated that the transition costs would be about $243 million for the transfer option and $133 million for privatizing-in-place—a one-time cost difference of about $110 million to transfer the workloads. Our analysis shows this cost difference is overstated by $9.4 million because the Navy (1) did not justify about $8 million in administrative costs for the transfer option and (2) did not adjust the estimated personnel relocation costs by about $1.4 million to reflect the smaller number of employees that would be needed. Adjusting the Navy's estimate for these factors reduces the difference between the two options to about $100 million, as shown in table 3.

Table 3: Our Estimate of One-Time Transition Cost Estimates to Privatize-in-Place Versus Transfer Louisville Depot Workload to Other Navy Depots

	Cost		
Transition cost categories	Transfer option	Privatization option	Difference
Military construction	$32,820		
Environmental	11,204	$5,225	
Personnel transfer/severance	76,192[a]	64,339	
Civilian retraining	3,824	11,380	
Transportation	12,466	1,740	
Property disposal	2	3,033	
Phone services	6	12	
Equipment relocation	42,127	3,993	
Equipment disposal	232	20	
Interim contract costs	4,600	2,355	
Administrative	3,108 [b]	11,829	
Minor construction	1,480	3,225	
Repair/refurbishment	3,617	1,640	
Other procurement	3,726	322	
Other costs	38,800	24,239	
Total costs	**$234,204**	**$133,352**	**$100,852**

[a]We reduced the Navy's personnel relocation cost estimate by $1.4 million to reflect the actual number of people that would be needed at the receiving depot.

[b]We reduced the Navy's administrative cost estimate for $8 million in unjustified costs.

Source: Navy cost analysis, with our adjustments as footnoted.

Annual Recurring Savings From Transfer Option Understated

Our analysis shows the Navy estimate of $9.3 million annual recurring savings from transferring the workloads to underutilized facilities was understated by $20.6 million. We estimate annual recurring savings to be $29.9 million, or about $150 million over the 5-year contract period. The Navy estimated the impact of overhead rate savings on workloads being transferred to the underutilized facilities but did not apply the overhead rate to existing workloads at those facilities. We developed our estimate using labor rate data from the potential receiving Navy locations at the Norfolk and Crane facilities and revised it to reflect the reduction in overhead costs that would result from spreading fixed overhead costs over a larger workload base. As shown in table 4, reduction in rates at the Norfolk and Crane facilities would produce annual savings of about $20.6 million on their existing workloads.

Table 4: Our Estimate of Annual Overhead Rate Savings on the Existing Workloads at Receiving Depots

Receiving depots	Direct labor hours	Reduction in rates	Savings
Norfolk Naval Shipyard	8,969,051	$1.32	$11,807,215
Crane Surface Warfare Center	4,337,000	2.02	8,776,380
Total			**$20,583,595**

Note: Direct labor hours and rate reductions are yearly averages over the period of the privatization contracts.

The draft of this report we provided to DOD for comment stated that the $29.9-million consolidation savings were in addition to the BRAC Commission's $28.6 million savings estimate. Navy officials did not agree that the total BRAC savings should be added to the consolidation savings estimate. They noted that the estimated BRAC savings were based on the elimination of depot and nondepot personnel and base operating costs. They further stated that much of the nondepot related savings had been achieved under privatization, and that the depot related savings were reflected in the $29.9-million estimate. After reviewing supporting Navy and BRAC data, we agree that some, but not all of the BRAC savings from eliminating nondepot personnel and operating support costs had been achieved and depot savings were reflected in our $29.9-million estimate. The data showed that about $12 million of the BRAC savings was achieved by eliminating nondepot personnel and operating costs. However, we could not determine exactly how much of this amount had been saved.

In its 1995 report, the BRAC Commission expressed concern about savings that were not included in the Cost of Base Realignment Actions model. Specifically, the Commission identified the exclusion of savings achievable by consolidating functions at fewer locations. The Commission reported that even though savings from consolidation are difficult to estimate, they are a legitimate savings due to the closure process.

Declining Workload May Further Increase Costs

Declining workloads and the impact of these declines on maintenance cost have been key reasons for closing depots through the base realignment and closure process. Consolidating workloads from the closed facilities with workloads in remaining depot facilities was to improve capacity utilization at remaining facilities and reduce costs by spreading fixed overhead costs over a larger number of production units. According to Navy officials, over the 4-year period between 1992 and 1995, the

Louisville depot's workload declined about 32 percent. They noted that further Navy workload declines are likely.

DOD officials stated that the repair workload for the Phalanx system is about what was projected for the fiscal year 1997 contract period. However, the gun repair workload initially projected for fiscal year 1997 has not materialized. In July 1996, at the time of contract award, the contractor's overhead rates were based on a projected funded workload valued at about $44.9 million. In September 1996, United Defense Limited Partnership rates for fiscal year 1997 were renegotiated based on a lower projected funded workload valued at about $35.2 million. According to Defense Contract Management Command and contractor officials, the actual value of the 1997 funded gun repair workload could be as low as $21 million—a reduction of over 50 percent from the initially projected funded workload. As a result, United Defense Limited Partnership has an increasingly fewer number of production units to share its fixed overhead costs, resulting in increased costs for each unit produced. As an indicator of these increased costs, in May 1997, United Defense increased its estimate of funding required for 13 contract items by $3.3 million—an increase of 26 percent. These 13 items are the only line items from the 46 funded line items in the gun repair workload for which the contractor has reported any costs for fiscal year 1997. According to Navy officials, under the cost-type contract used at the Louisville depot, it is likely that additional Navy workload declines will increase costs further. Contractor and local reuse authority officials note that efforts are being made to bring in other gun repair workload as well as some commercial work. However, officials stated that the high overhead rates make it difficult for the Louisville depot to attract new work. We have reported that workload declines in Navy shipyards have also resulted in losses that will require rate increases.[4]

One of the key advantages of the transfer option was to broaden the workload base at the receiving location to lessen the impact of temporary shifts in workload. As workloads continue to decline, a larger industrial facility with a broader workload base could potentially reassign laborers to another workload with less impact on the total cost of operations.

[4] Defense Depot Maintenance: Challenges Facing DOD in Managing Working Capital Funds (GAO/T/NSIAD/AIMD-152, May 7, 1997).

Potential for Using Existing Contractor Facilities for the Louisville Workload

We examined the potential for consolidating portions of the Louisville workloads with compatible military programs currently being accomplished in DOD contractor facilities to determine if consolidation savings could be achieved. The Louisville depot's gun repair workload constitutes about 46 percent of the total maintenance workload at that facility. We determined that this workload fits the existing capabilities and available capacity of the government-owned, contractor-operated United Defense Limited Partnership facility in Fridley, Minnesota, which currently operates with significant excess capacity. Such a move could result in a gross annual savings of about $13.9 million for Fridley's existing workload. However, because labor rates are higher at the Fridley facility, the transferred workload would cost $4.7 million more per year than at the Louisville depot, reducing the potential annual savings for the consolidated workload to $9.2 million.

Navy officials stated that consolidation at the Fridley facility is not a realistic option since the Navy plans to divest itself of that facility. It is uncertain where the contractor may decide to locate the current Fridley research and development, production support, and manufacturing workloads. Since the Louisville depot has related workload with significant excess capacity, it is one option that may be considered. If these workloads were moved to the Louisville depot, significant overhead savings could be achieved for the gun repair workloads currently performed there.

We also reviewed the potential for transferring the Phalanx close-in weapon system, which accounts for the remaining 56 percent of the depot's workload, to the Hughes Missile Systems Company facility in Tucson, Arizona. This does not appear to be a feasible option because previous Hughes production consolidation initiatives, which resulted in the closure of unneeded facilities to reduce excess capacity, limited available capacity to the production of circuit cards. Hughes officials stated that prior to their consolidation initiatives, the Tucson facilities would likely have had the necessary capacity to absorb Louisville's Phalanx workload.

Conclusions and Recommendations

Costly excess capacity in the Navy depot infrastructure has been aggravated by the recent privatization-in-place of the Louisville depot. Our February 1997 report on defense infrastructure identified infrastructure activities as a high-risk area that requires breaking down cultural resistance to change, overcoming service parochialism, and setting forth a clear framework for a reduced defense infrastructure to avoid waste and inefficiency. Our primary concerns related to inefficient business processes and excess capacity. We pointed out that DOD needs an overall plan for addressing the problem. The situation at the Louisville depot is representative of this overall concern. While this facility is now leased by the local reuse authority and operated by the contractors, it is increasingly inefficient as the workload continues to decline. The Navy must pay the cost for this inefficiency and the inefficiency of other facilities that could have been made more productive and cost-effective had the Louisville workloads been consolidated there.

We recommend that the Secretary of Defense direct the Secretary of the Navy to (1) develop a plan for reducing excess depot maintenance capacity and costs and (2) prior to exercising any contract options for the Louisville workload, conduct a cost analysis that would compare the cost-effectiveness of privatizing the Louisville workload in place with transferring it to underutilized DOD or contractor facilities. The cost analysis should also include the total cost and savings associated with overhead cost reduction that would be realized at underutilized DOD and contractor facilities for workloads already produced at these locations.

Agency Comments

DOD's response to our draft report, which is provided in appendix I, generally concurred with our recommendations. DOD concurred with the intent of our recommendation to develop a plan to reduce excess capacity but stated that it would be inappropriate to wait until such a plan is developed before deciding to exercise the contract renewal options for the Louisville workload. The DOD response noted that in deciding whether or not to exercise the Louisville contract options, the Navy must follow the Federal Acquisition Regulation (FAR). While we recognize that the Navy must follow the FAR in executing contract options, the regulations provide the Navy with some degree of latitude in deciding whether to execute contract options. If it develops an overall plan for reducing excess capacity, the Navy can consider the cost implications of excess capacity at other DOD depots before executing contract renewal options on the Louisville workload. Nonetheless, we revised our recommendation so the development of a plan to reduce excess capacity is separate from our recommendation related to exercising the option on the Louisville workload. DOD agreed that there is a need to reduce excess depot maintenance capacity.

DOD partially concurred with our recommendation that the Navy conduct a cost analysis before exercising any renewal options for the Louisville workload. DOD stated that it will direct the Secretary of the Navy to conduct and adequately document a cost analysis in conjunction with any decision affecting the continuation of previously privatized workloads from the Louisville depot. However, the DOD response noted that the alternatives permitted by BRAC did not include transferring the Louisville workload to other contractor facilities, and therefore, that analysis would be inappropriate. We continue to believe that reducing excess capacity in both the public and private sectors is essential to reducing the cost of DOD's depot maintenance program. Therefore, in making future workload allocation decisions for the Louisville workload, DOD and other contractor facilities should be considered.

The draft of this report stated that the Navy planned to implement a pilot program for pension portability at the Louisville depot.[5] The program would have allowed DOD civilian employees of this depot and other activities on closed military bases whose jobs were privatized-in-place to accrue years of federal service for the purpose of determining eligibility for civil service retirement benefits for their private sector employment. Subsequently, the Deputy Secretary of Defense announced that the Department would not be establishing a pilot program at Louisville or any other privatized facility. We removed the information contained in our draft report referring to this program.

Scope and Methodology

To examine the cost-effectiveness of the Louisville depot privatization-in-place relative to transferring the work to other DOD facilities, including the impact of excess capacity in existing Navy facilities, we reviewed documents and interviewed officials from the

- Office of the Secretary of Defense and the Office of the Secretary of the Navy in Washington, D.C.;
- Naval Sea Systems Command and Naval Surface Warfare Center Headquarters, Arlington, Virginia;
- Naval Surface Warfare Center field locations in Louisville, Kentucky; Port Hueneme, California; and Crane, Indiana;
- Norfolk Naval Shipyard, Virginia; and

[5]This program was authorized by section 1616 of the National Defense Authorization Act for Fiscal Year 1997, P.L. 104-201.

- Defense Contract Management Command and Defense Contact Audit Agency contractor sites at United Defense Limited Partnership, Fridley, Minnesota, and Hughes Missile Systems Company, Tucson, Arizona.

To analyze the Navy's cost study, we reviewed the supporting data for the Navy's cost analysis, comparing estimates under each budget category. We reviewed the material cost elements for relevance, completeness, and accuracy and discussed our observations with responsible Navy management and contracting officials.

To determine the feasibility of transferring the Louisville workloads to DOD contractor facilities, we interviewed officials from the United Defense Limited Partnership and the Hughes Missile Systems Company, the two companies awarded 1-year contracts for the Louisville workload. We also interviewed Defense Contract Management Command and Defense Contract Audit Agency officials at each facility, collected data on contractor operating cost and current workload, and calculated the cost impact of transferring the workload covered by the Louisville privatization contracts to these private sector facilities.

We conducted our review from July 1996 through February 1997 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense and the Navy; the Director, Office of Management and Budget; and interested congressional committees. Copies will also be made available to others upon request.

Please contact me at (202) 512-8412 if you or your staff have any questions regarding this report. Major contributors to this report were Jim Wiggins, Julia Denman, Larry Junek, and John Strong.

David R. Warren

David R. Warren, Director
Defense Management Issues

Comments From the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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ACQUISITION AND TECHNOLOGY

14 APR 1997

Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the GAO draft report, "NAVY DEPOT MAINTENANCE: Privatizing Louisville Operations in Place is Not Cost Effective," dated March 4, 1997. (GAO Code 709220, OSD Case 1306).

The Department does not completely agree with GAO's cost analysis, but we do concur with the intent of the two recommendations. The Navy is engaged in a continual process of reducing excess infrastructure and is executing programs for the reduction of excess facilities and the consolidation of like functions.

The Department of Defense will direct the Secretary of the Navy to conduct and adequately document a cost analysis in conjunction with any decision affecting the continuation of previously privatized mission essential work.

Enclosed are the specific responses to your two recommendations.

John F. Phillips
John F. Phillips
Deputy Under Secretary
of Defense (Logistics)

Enclosure:
As stated

GAO DRAFT REPORT - DATED MARCH 4, 1997
(GAO CODE 709220) OSD CASE #1306

"NAVY DEPOT MAINTENANCE: Privatizing Louisville Operations in Place Is Not Cost-Effective"

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that, before exercising any contract renewal options for the Louisville depot maintenance workload, the Secretary of Defense direct the Secretary of the Navy to develop a plan for reducing excess depot maintenance capacity and costs.

DOD RESPONSE: Concur with the intent of recommendation. It is agreed there is a need to reduce excess depot maintenance capacity. The Navy is engaged in a continual process of reducing excess infrastructure and is executing programs for the reduction of excess facilities and the consolidation of like functions. The Navy will follow the guidance contained in the Federal Acquisition Regulation in exercising any contract options. It would be inappropriate to restrict the exercising of contract renewal options for the Louisville depot maintenance workload in the manner recommended by the GAO.

RECOMMENDATION 2: The GAO recommended that, before exercising any contract renewal options for the Louisville depot maintenance workload, the Secretary of Defense direct the Secretary of the Navy to conduct a cost analysis that would compare the cost-effectiveness of privatizing the Louisville workload in place with transferring the Louisville workload to underutilized DOD or contractor facilities. The GAO noted that the cost analysis should include the total cost and savings associated with overhead cost reduction that would be realized at underutilized DOD and contractor facilities for workloads already produced at the locations.

DOD RESPONSE: Partial Concur. The Department of Defense will direct the Secretary of the Navy to conduct and adequately document a cost analysis in conjunction with any decision affecting the continuation of previously privatized mission essential work. The alternatives permitted by BRAC did not include transferring the Louisville workload to other contractor facilities and therefore that analysis would be inappropriate.

Related GAO Products

Defense Depot Maintenance: Challenges Facing DOD in Managing Working Capital Funds (GAO/T/NSIAD/AIMD-152, May 7, 1997).

Depot Maintenance: Uncertainties and Challenges DOD Faces in Restructuring Its Depot Maintenance Program (GAO/T/NSIAD-111, Mar. 18, 1997) and (GAO/T/NSIAD-112, Apr. 10,1997).

Defense Outsourcing: Challenges Facing DOD As It Attempts to Save Billions in Infrastructure Costs (GAO/T/97-110, Mar. 12, 1997).

High-Risk Series: Defense Infrastructure (GAO/HR-97-7, Feb. 1997).

Air Force Depot Maintenance: Privatization-in-Place Plans are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, Dec. 31, 1996).

Army Depot Maintenance: Privatization Without Further Downsizing Increases Costly Excess Capacity (GAO/NSIAD-96-201, Sept. 18, 1996).

Navy Depot Maintenance: Cost and Savings Issues Related to Privatizing-in-Place the Louisville, Kentucky, Depot (GAO/NSIAD-96-202, Sept. 18, 1996).

Defense Depot Maintenance: Commission on Roles and Mission's Privatization Assumptions Are Questionable (GAO/NSIAD-96-161, July 15, 1996).

Defense Depot Maintenance: DOD's Policy Report Leaves Future Role of Depot System Uncertain (GAO/NSIAD-96-165, May 21, 1996).

Defense Depot Maintenance: More Comprehensive and Consistent Workload Data Needed for Decisionmakers (GAO/NSIAD-96-166, May 21, 1996).

Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996) and (GAO/T-NSIAD-96-148, Apr. 17, 1996).

Military Bases: Closure and Realignment Savings Are Significant, but Not Easily Quantified (GAO/NSIAD-96-67, Apr. 8, 1996).

Depot Maintenance: Opportunities to Privatize Repair of Military Engines (GAO/NSIAD-96-33, Mar. 5, 1996).

Closing Maintenance Depots: Savings, Personnel, and Workload Redistribution Issues (GAO/NSIAD-96-29, Mar. 4, 1996).

Navy Maintenance: Assessment of the Public-Private Competition Program for Aviation Maintenance (GAO/NSIAD-96-30, Jan. 22, 1996).

Depot Maintenance: The Navy's Decision to Stop F/A-18 Repairs at Ogden Air Logistics Center (GAO/NSIAD-96-31, Dec. 15, 1995).

Military Bases: Case Studies on Selected Bases Closed in 1988 and 1991 (GAO/NSIAD-95-139, Aug. 15, 1995).

Military Base Closure: Analysis of DOD's Process and Recommendations for 1995 (GAO/T-NSIAD-95-132, Apr. 17, 1995).

Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment (GAO/NSIAD-95-133, Apr. 14, 1995).

Aerospace Guidance and Metrology Center: Cost Growth and Other Factors Affect Closure and Privatization (GAO/NSIAD-95-60, Dec. 9, 1994).

Navy Maintenance: Assessment of the Public and Private Shipyard Competition Program (GAO/NSIAD-94-184, May 25, 1994).

Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors (GAO/T-NSIAD-94-161, Apr. 12, 1994).

Depot Maintenance (GAO/NSIAD-93-292R, Sept. 30, 1993).

Depot Maintenance: Issues in Management and Restructuring to Support a Downsized Military (GAO/T-NSIAD-93-13, May 6, 1993).

Air Logistics Center Indicators (GAO/NSIAD-93-146R, Feb. 25, 1993).

Defense Force Management: Challenges Facing DOD as it Continues to Downsize its Civilian Workforce (GAO/NSIAD-93-123, Feb. 12, 1993).

Navy Maintenance: Public/Private Competition for F-14 Aircraft Maintenance (GAO/NSIAD-92-143, May 20, 1992).

Military Bases: Information on Air Logistics Centers (GAO/NSIAD-90-287FS, Sept. 10, 1990).

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