



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

THE DIRECTOR

April 20, 2006

The Honorable Richard B. Cheney  
President of the Senate  
Washington, DC 20510

Dear Mr. President:

I am pleased to present the enclosed report on the Administration's competitive sourcing initiative. This report describes the aggregate results of agencies' competitive sourcing efforts for FY 2005. The report also analyzes trends over the last three years.

Federal employees are taking advantage of competitive sourcing, like other management disciplines promoted by the President's Management Agenda, to achieve quantifiable savings and better service to taxpayers. Through public-private competition, managers of highly commercial activities are making reasoned determinations about whether taxpayers are better served through performance by a most efficient government organization or, alternatively, by a qualified, cost-effective contractor.

Improvements set in motion by competitions completed in FY 2005 alone are expected to generate net savings, or cost avoidances, totaling in excess of \$3.1 billion over the next 5-10 years. Cumulative projected savings over this general time period from competitions completed in the last three fiscal years are estimated to be \$5.6 billion. These figures confirm that savings will continue to increase as more competitions are completed and cost controls and other performance improvements are brought to bear on a larger number of our daily commercial tasks.

Federal employees have fared well in public-private competitions, taking advantage of the competition process to eliminate waste from their operations. Employees have received more than 80 percent of the work competed during FYs 2003-2005. Private sector contractors have also received significant work by demonstrating their ability to improve government effectiveness and deliver substantial results. For example, the decision by the Federal Aviation Administration (FAA) to rely on a private sector contractor for the modernization of its Automated Flight Service Stations (AFSS) will help save taxpayers \$2.2 billion through the replacement of antiquated systems and labor intensive processes with state-of-the-art technology, modern facilities, and high-quality customer service.

Despite the impressive results and agencies' responsible use of competition, a number of legislative provisions limit agencies from taking full advantage of competition. The Administration is particularly concerned by a provision that marginalizes the consideration of quality in competitions and forces agencies to choose between the government and the private sector solely based on lowest cost. Over the past two years, competitions that have considered

both cost and quality in the selection of a provider have enabled agencies to achieve transformational improvements, such as the modernization of FAA's AFSS, which would not have been possible if the agency had been forced to select the lowest cost provider. OMB has prepared a separate report (enclosed) on the use of best value in public-private competition and the problematic effects of this statutory restriction.

We welcome the opportunity to work with Congress on the continued implementation of competitive sourcing and the elimination of statutory restrictions so that competition may be used whenever appropriate to improve quality, reduce costs, and increase efficiencies.

Sincerely,

A handwritten signature in black ink, appearing to read "Clay Johnson III". The signature is fluid and cursive, with a large initial "C" and "J".

Clay Johnson III  
Acting Director

Enclosures

cc:

Identical Letter Sent to:

The Honorable Richard D. Cheney  
The Honorable J. Dennis Hastert  
The Honorable Jerry Lewis  
The Honorable David R. Obey  
The Honorable Thad Cochran  
The Honorable Robert C. Byrd  
The Honorable Susan Collins  
The Honorable Joseph I. Lieberman  
The Honorable Thomas M. Davis  
The Honorable Henry A. Waxman