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Agencies put thousands of jobs up for competition

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When George W. Bush promised at a June 2000 campaign rally in Philadelphia to overhaul government operations, it's safe to say few federal employees figured it would cost them their jobs. But almost three years later, a promise Bush made that day—to put the jobs of 425,000 civil servants up for competition with contractors—has resonated far and wide inside the federal workforce.

Marilyn Coleman first heard of Bush's pledge last summer, when she was told her job might be in jeopardy. A computer specialist at the Gifford-Pinchot National Forest in Washington state, Coleman is part of a competition involving 500 information technology workers at the Forest Service. If the contractor wins, Coleman doesn't know what she will do. She lives in Randel, Wash., a logging community with few jobs for women. After 21 years with the Forest Service, she'd like to stay in government. "I still have eight years to go until retirement, and I'm worried," she says.

Competitive sourcing, as the administration calls its effort, is the most controversial piece of Bush's management agenda. It could save \$10 billion, make agencies more efficient and permanently erase the stereotype of shiftless, lazy government workers. It also could make the government less diverse, hurt agency missions, damage morale throughout government, and not save a dime. Last July, the House voted to halt the program. But under White House pressure, the Senate voted in January to let the effort proceed.

The competitive sourcing process is arduous. Public-private job competitions can drag on for years, putting a strain on employees and driving away potential contractors who don't want to go through the hassle. Most agencies have little experience with job competitions. When the Office of Management and Budget launched its initiative in March 2001, only the Defense Department was running significant numbers of competitions. Embraced as a mid-1990s budget-cutting tool, the process generated \$5 billion in savings at Defense between 1997 and 2001. At civilian agencies, the Bush mandate fell on officials who often had no background with competitions or their complex rules, contained in OMB Circular A-76.

Given this state of affairs, many observers doubted the competitive sourcing

program would ever take hold outside Defense. But two years after OMB's first directive, civilian agencies are putting thousands of jobs up for competition:

- The Veterans Affairs Department, the biggest civilian agency, will compete 53,000 jobs over the next five years, including 25,000 positions this fiscal year. VA estimates these competitions could save up to \$1.4 billion.
- The Energy Department, which already employs more than 100,000 contractor employees, will compete 1,180 federal jobs, including 642 IT jobs at 21 offices.
- The Agriculture Department's 29 agencies will compete 7,000 jobs this year.
- At the Federal Aviation Administration, 2,700 air traffic specialists at 58 facilities across the country will compete for their jobs against companies.

Civilian agencies are rushing to meet a Sept. 30 deadline, set by OMB, for competing 15 percent of jobs classified as commercial under the 1998 Federal Activities Inventory Reform (FAIR) Act. The law requires agencies to inventory jobs that could be performed by private contractors. In 2000, they identified 850,000 such jobs. To compete 15 percent of them would involve 127,500 jobs. That would get the administration nearly a third of the way toward meeting Bush's goal of 425,000 (half the 850,000 inventory). More than half the commercial jobs are found in the Defense Department, which continues to hold competitions.

If civilian agencies begin to match DoD in holding competitions, they will validate a strategy hammered out in late 2001 by OMB. Instead of insisting on a one-size-fits-all approach to competitive sourcing, OMB decided to negotiate with civilian agencies, giving them leeway on deadlines and the A-76 process in exchange for starting competitions rather than avoiding them. It is an approach that supports management reform at some agencies, while causing turmoil at others. But most of all, OMB's strategy has nudged agencies to get started on competitive sourcing. It's also why Marilyn Coleman and thousands of other federal employees are fighting for their jobs.

DEALMAKERS

Despite its significance, OMB's March 2001 directive prompted little activity for months. With few political appointees in place, civilian agencies waited until late summer to address OMB's guidance. Then they tried to sound out OMB's commitment to the program. Some requested competitive sourcing credit for jobs that had been contracted out in 2000. Few would commit to finish competitions by any specific date. "It took a while for agencies to take this seriously," says Angela Styles, administrator of the Office of Federal Procurement Policy at OMB and the administration's point person on competitive sourcing.

OMB met resistance at several agencies, including the huge Veterans Affairs

Department, whose participation was critical to the program. VA has 190,000 commercial jobs. In an Aug. 13, 2001, letter to OMB Director Mitch Daniels, Veterans Affairs Secretary Anthony Principi said VA was concerned about the competitive sourcing targets and did not intend to conduct large-scale job competitions.

“I think, like everybody, we were reluctant to get into competitive sourcing because it’s not easy,” says Dennis Duffy, VA’s principal deputy assistant secretary for policy and planning. “You’ve got large numbers of people who have worked for many years for the department and have provided good quality service to the people we serve. This kind of change and potential displacement is very, very difficult.”

Civilian agencies also were miffed that OMB’s initiative took no notice of their efforts to use more contractors during the 1990s. For example, the Veterans Health Administration increased its spending on contractors by one-third over the last five years. VHA estimates it now employs 43,000 contract workers. But Bush officials would only give credit for competitions conducted on their watch.

At OMB, Styles crafted a strategy to address complaints about the initiative. A first-time political appointee who cannily has cultivated ties with both contractors and federal labor unions—American Federation of Government Employees President Bobby Harnage once sent her two dozen roses—Styles emphasized that competitive sourcing was a presidential priority. She also told agencies they could keep any savings it provided. Then she started to make deals.

At the State Department, Styles agreed to exempt foreign nationals and Foreign Service employees stationed overseas from competitive sourcing. State in turn said it would compete 586 jobs, which would meet the 15 percent target. In April, Styles approved an Interior Department process that allows agencies to conduct competitions on work involving 10 or fewer employees. Small functions like this are eligible for what is known as “direct conversion,” in which work is simply outsourced to private companies, but the Interior “express review” process gave employees a chance to compete. (They have lost all 14 such competitions so far, however).

Interior was among the first departments to sign on to competitive sourcing, a fact that helped its process win approval, according to Styles. OMB later allowed the departments of Treasury, Agriculture, and Health and Human Services to use express review. HHS, in fact, can use it on competitions involving up to 65 employees.

Some of Styles’ concessions stretched the definition of competitive sourcing. OMB’s competition targets apply only to federal jobs; it never set targets encouraging public-private competition for contractor-held positions. But OMB will give credit to the Housing and Urban Development Department for a “reverse A-76” competition on the administration of HUD home loan programs. “There are some things that they are going to look at in terms of

bringing it back in-house,” says Styles.

Administered largely by contractors, the home loan programs have been accused of widespread mismanagement by HUD’s inspector general. “There has been a clear recognition on everybody’s part that there may have been too much” contracting out at HUD, says Styles. OMB will allow HUD to hire more employees if they are needed to implement the reverse A-76 competition, she adds. To date, HUD has not held any regular public-private competitions or direct conversions. The department actually grew by 400 federal employees last year. HUD union leaders say Bush officials are more sensitive to the contracting-out problem than their predecessors in the Clinton administration.

NASA is getting competitive sourcing credit for traditional contracting. The agency will receive credit for holding competitions on certain private sector contracts, including a pact to provide communication services on space equipment. Such competitions have no effect on federal employees. NASA will hold normal public-private competitions in the future, albeit less than some agencies because it already has a huge contractor workforce.

While OMB is willing to tailor competitive sourcing to agencies’ needs, it has taken a hard line with some. The budget office initially resisted VA’s effort to craft an alternative method for full A-76 competitions, which was necessary because VA is exempt from A-76 by law. After months of negotiation, Styles and VA’s Duffy reached a compromise: VA could use its alternative A-76 process and protect its doctors and health care professionals from competition. But the department would conduct competitions for its support workforce, including employees in building maintenance, food service and VA laundries. “We tried to customize the process to fit the unique needs of our department and our constituents,” says Duffy.

Internal documents show that OMB picked the VA support jobs that will face competition. Styles says agencies have the final say over which jobs they compete, but she admits that OMB makes suggestions. “In some cases we have more experience working with the inventory [of commercial jobs] than agencies do,” she says.

OMB’s involvement does not stop simply with approving competitive sourcing plans. The budget office rewrote Circular A-76, adding tough deadlines for competitions. Styles, her deputy Jack Kalavritinos and OMB

A-76 expert David Childs provide regular policy advice. “We talk to OMB every day,” says Helen Bradwell-Lynch, director of competitive sourcing at the Interior Department. “You’ve got to have somebody to answer questions because this program is so complicated.”

One thing OMB has not provided is cash. As with its other federal management initiatives, OMB expects competitive sourcing to pay for itself. In fiscal 2002, some agencies had to suspend other management initiatives in order to pay for the program. Competitive sourcing requires a sizable initial

investment, particularly to pay the contractors who run the competitions. OMB helped agencies find funds for competitive sourcing in their fiscal 2003 budget requests, but privately, many officials believe the program is being run on the cheap. "Think about how big this is to the administration and then see how few resources they put into it," says one industry observer.

LITTLE BIT OF EVERYTHING

Depending on the season, anywhere from 45 to 110 Forest Service employees work at the Gifford-Pinchot National Forest. But only one handles IT: Marilyn Coleman. She installs software, troubleshoots computer problems, and even sits at the front desk if needed. And when summer rolls around, Coleman, like thousands of Forest Service employees, goes off to fight fires, even at age 47. "It's a little bit of everything," she says.

And like those of thousands of federal employees, Coleman's job has been targeted for competition. But the Forest Service is still struggling to figure out how to compete her job. What IT contractor would want to send a single employee to work at her location? How many IT contractors are willing to fight fires?

Civilian agencies are finding that competitive sourcing techniques that worked for the Defense Department often do not work for them. Defense used A-76 to streamline base operations. But many agencies—especially those involved in land management—have small groups of employees with multiple tasks scattered across the country. "Competitive sourcing works pretty good if you've got a bunch of people doing one thing at one location," says Thomas Mills, deputy chief of business operations at the Forest Service. "We've got a few people who do multiple things all over."

In rural areas, just finding companies to compete against federal employees can be a challenge. The Interior Department has found that small businesses in rural areas often lose interest in competitions when they learn about the laws that federal contractors must follow. "We tell them about the Service Contracting Act, the Davis-Bacon Act, and then we never hear back," says Jennings Wong, who assists Bradwell-Lynch at Interior's competitive sourcing office.

Even agencies that are not so widely dispersed have found that competitive sourcing requires new strategies. Many pride themselves on being employee-friendly, and all are trying to keep a lid on the resources they put into competitive sourcing while still satisfying OMB. Sometimes these goals collide.

At HHS, Secretary Tommy Thompson has guaranteed that no employees will lose their jobs because of competitive sourcing. Thompson's guarantee puts great pressure on HHS managers to find jobs for workers who lose competitions. But trying to make competitive sourcing more employee-friendly often creates more work. The Energy Department is running a full-scale competition for 13 graphic designers, even though such studies generally

involve at least 65 workers. Energy's move will give the designers a chance to compete for their jobs. "We could have looked at a waiver for a direct conversion, but we made a commitment to the employees that we would do a full competition," says Dennis O'Brien, director of competitive sourcing at Energy. "It costs you more money to do that."

Agencies are looking for ways to make competitive sourcing easier on employees and reduce the burden of conducting competitions. For example, Interior plans to ask OMB for competitive sourcing credit for filling some job openings with contractors instead of federal employees. This isn't really public-private competition, but Interior officials think it would be better for workers. "Why hire 50 people and later subject them to a competition when you can [outsource] it right upfront?" asks Bradwell-Lynch.

No agency is implementing competitive sourcing without contractor support. "There is no expertise left in government to do these [competitions]," says Bradwell-Lynch. For niche contractors that specialize in A-76, the initiative is big business. "We have grown approximately 50 percent in the last year," says Dale Warden, chief operating officer of Warden Associates, a Springfield, Va.-based firm that is helping 10 agencies with their competitive sourcing programs. The demand for consultant support is so great that industry is strapped to meet it, according to Warden. "The biggest problem is finding qualified people to do the work," he says.

FOUR INNOVATORS

Despite these challenges, many civilian agencies have put together robust competitive sourcing programs and are using them to pursue innovative management reforms. Here are four examples.

ENERGY:

The Energy Department is using competitive sourcing to help redesign its use of information technology. Until now, Energy components purchased IT equipment on an ad hoc basis, leading to a proliferation of different systems that are costly to maintain. "It was a very wasteful way to go about buying IT," says Chief Financial Officer Bruce Carnes, who oversees Energy's competitive sourcing efforts. But after conducting a departmentwide IT competition—encompassing 642 federal jobs and more than 1,000 contractor positions—Energy will have a single IT strategy controlled by Karen Evans, the department's chief information officer.

Energy also is running departmentwide competitions for accounting, training, logistics and maintenance jobs—all work routinely done in the private sector, says Carnes, who oversaw A-76 competitions in his previous job at the Defense Finance and Accounting Service. Energy has put senior officials in charge of these studies so they can resolve turf squabbles that result from competing jobs at dozens of offices.

Officials admit the competitions will put a heavy strain on day-to-day operations. "It's like trying to change the tires on a car going 60 miles per

hour,” says Carnes. “You have to ensure that you maintain ongoing operations and you have to evolve to the new state.” IT employees in Washington, where the majority of workers in the study are located, have yet to come to grips with the impending competition. “It’s still not real,” says Mike Boblitt, president of National Treasury Employees Union Chapter 228, which represents employees at Energy’s headquarters. But it’s getting more real. In January, Boblitt filed a complaint with the Federal Labor Relations Board, seeking more union input on how the competitions will work.

If contractors win the competitions, Carnes is confident that Energy can administer the resulting contracts, despite long-standing weaknesses in managing its giant contract workforce. “I don’t see that competitive sourcing is a particular challenge with respect to that . . . certainly not in the area of financial work and IT,” he says.

VETERANS AFFAIRS:

The VA has 63 laundry facilities, and by the end of the year all 1,005 people who work in them will face private sector competition. The department is using the laundries to refine its alternative A-76 process, which uses market research to determine whether the private sector can better perform a service. VA officials think the process has great potential. Pam McGuire, director of logistics at the VA campus in Murfreesboro, Tenn., has used it to streamline four laundries in Tennessee, Kentucky and West Virginia.

VA is banking on competitive sourcing to yield savings. If the process works, the department will integrate anticipated savings—estimated at \$1.3 billion to \$1.4 billion over five years—into future budget requests, according to Duffy. “We hope to be able to redirect those dollars back into the delivery of health care,” he says.

In some ways, VA’s competitive sourcing program is more noteworthy for who it protects from competition: health care professionals. “We are trying to ensure our doctors, nurses and allied health care professionals are indeed VA employees in the future,” says Duffy.

FOREST SERVICE:

The way Marilyn Coleman sees it, competitive sourcing just doesn’t make sense at the Forest Service, where so many IT employees and maintenance workers double as firefighters in the summer. “If they bring contractors in to do the computer work, they are going to lose a lot of other skills the contractors won’t have,” she says.

Thomas Mills shares this concern and admits the Forest Service is still trying to figure out how to make competitive sourcing fit its needs. “I don’t want to do something that makes the government less efficient,” he says. But challenges abound. The Forest Service relies on roughly 100,000 volunteers to clean campgrounds and help maintain recreation areas in national forests. Forest Service maintenance employees loosely supervise these volunteers. If the agency contracts out its maintenance jobs, some officials doubt whether the volunteers would still come to work. “I’m fairly confident those volunteers

would not agree to work for IBM,” says one employee.

The agency is considering a variety of approaches for handling these issues, including regional competitions.

FAA:

On Friday, Dec. 20, more than 70 U.S. airports were home to some unlikely demonstrators: hundreds of off-duty air traffic controllers, handing out leaflets describing the dangers of privatization. The demonstration was part of a campaign by the National Air Traffic Controllers Association to protect union members from competitive sourcing.

There’s just one hitch: the FAA has said it has no plans to use competitive sourcing for air traffic controller jobs. Instead, it has started a nationwide competition involving the “other controllers”—air traffic specialists who brief pilots on weather conditions and assist in search-and-rescue missions. Some of the higher-paid employees to be targeted for competitive sourcing, these specialists believe that contracting-out their jobs could jeopardize safety. An air traffic specialist can make \$72,000 a year. “If it goes contract, I honestly believe it’s going to take people’s lives,” says Craig Marcus, an air traffic specialist in Lansing, Mich., and a local steward with the National Association of Air Traffic Specialists.

FAA officials refute this charge. “The study simply will not impact safety or security,” says John Hennigan, deputy chief financial officer at the FAA. Hennigan is leading a team that will oversee one of the most complicated job competitions ever conducted. It will encompass 58 of 61 flight service stations where specialists work—only stations in Alaska are exempt—and 2,700 employees. The FAA is using the job competition as a way to modernize its entire system for providing flight services. Because of its complexity, the competition will not be finished until late 2004 at the earliest. It already has foes in Congress. Sen. Frank Lautenberg, D-N.J., is pushing legislation to put air traffic jobs, including flight service specialists, off limits for competitive sourcing.

GET COMPETITIVE

Competitive sourcing is still in its infancy at civilian agencies. As of early February, none had completed a full job competition, leading some observers to call the program a failure. “Progress has been dismal,” says Carl DeMaio, president of the Performance Institute, an Arlington-Va.-based think tank. But the program already is having a major effect on certain types of employees.

The employees at greatest risk for competition—and for losing their jobs—are those who provide support services. While OMB does not have complete numbers, an informal survey of seven of the 10 largest civilian agencies shows most agencies are targeting IT workers, administrative support personnel, accountants and blue-collar workers for competition.

Styles wants agencies to consider all their commercial positions, which

include lawyers and other white-collar professionals, when they decide how to use competitive sourcing. "I tend to push them in the opposite direction, so we are not just looking at [competing] GS-5s, or we are not just looking at one category of people governmentwide," she says. The National Park Service, for example, is competing the jobs of architects and engineers in Denver.

Most agencies are protecting their core workforces from competition, but they may have to compete work directly related to their missions to meet Bush's goal of competing 425,000 jobs. The Energy Department already is looking at mission work for future rounds of competitive sourcing, according to Energy's O'Brien.

Some civilian agencies worry that competitive sourcing could make them less diverse. VA and the Transportation Department have said the program—and the direct conversion technique in particular—could disproportionately affect minorities.

"We haven't been able to pull in the statistics, but in looking at the affected workforce it is disproportionately minority and female," says consultant Dale Warden, who has been running competitions for 23 years.

But smart planning may allow agencies to keep reductions in force resulting from competitions to a minimum. The Interior Department has competed 475 positions, and no one has lost a job, says Bradwell-Lynch. Many displaced workers have been shifted into open positions created by retirements. Also, the law creating the Homeland Security Department allows all agencies to offer targeted buyouts.

Agencies might not see any savings from competitive sourcing for years. OMB says civilian agencies spend \$3,000 to \$5,000 for every job they put up for competition. Energy pays its contractors between \$7,000 and \$8,000 per position studied, according to O'Brien. And the competition process involves other costs that agencies do not track. "It's not what they pay consultants, it's the cost of lost productivity for the 800 people whose jobs have been disrupted when this is going on," says one expert.

Bigger competitions yield more savings, which is one reason OMB is encouraging agencies to conduct departmentwide competitions. Interior hopes to reap savings when it completes six full competitions later this year. "Our savings are minimal right now," says Bradwell-Lynch.

Styles cautions against judging the program on savings alone. In her view, competitive sourcing can have a positive effect on morale, and could even help attract young people to government service.

"I think what people [coming out of college] are looking for is a dynamic entity where they can learn, they can move up, and that's what you get through competition," says Styles.

If nothing else, the program already has prompted civilian agencies to take a

serious look at how they fulfill their missions. For employees in the crosshairs, it's time to compete. Union locals have hired consultants to help employees craft more competitive bids. Agencies believe their employees can stand up to competition. "At the end of the day we think our people stack up pretty well against the private sector," says Duffy.

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