

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York (Mr. MCHUGH) is recognized for 5 minutes.

(Mr. MCHUGH addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

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DOD'S PRIVATIZATION POLICY IN GUAM

The SPEAKER pro tempore. Under the Speaker's announced policy of January 6, 1999, the gentleman from Guam (Mr. UNDERWOOD) is recognized for 60 minutes as the designee of the minority leader.

Mr. UNDERWOOD. Mr. Speaker, I take this opportunity to do an extended special order on a matter of significance not only to the people in Guam but to the general readiness of our military, and that is the Department of Defense's continuing privatization efforts.

Today I want to discuss this matter which affects not only Guam, my home district, but certainly the whole readiness posture of our Armed Forces.

The Department of Defense has for many years been pursuing a better way to improve efficiencies in the way they conduct business and have begun many, many initiatives to improve their business practices. And like any large government bureaucracy, DoD has for years employed amongst its ranks thousands of civilians, technicians, and specialists, operators, maintenance personnel, laborers, and hundreds of other classifications of jobs.

In all likelihood, I am sure that we all recognize that there are many redundancies and cost inefficiencies and unsound business practices which cried out for reform. Indeed, there were thousands of uniform personnel carrying out tasks and assignments that would have been more suitable for a civilian technician.

However, as a result of the Cold War and in the name of military readiness, these non-war fighting jobs remained a part and parcel of DoD's workforce.

In the age of tight budgets and military drawdowns during the 1990s, the time has come to reform the Federal Government in general, and DoD in particular, in order to cut costs and create a more efficient organization, particularly as we drew down our uniform personnel.

These policies that were employed by the Department of Defense took several different forms and, to be fair, were proscribed in many ways by both Congress and the administration.

First, there was the lowering of the troop ceiling to cut back military end strength. Secondly, the DoD asked for and received, with Congress's blessings, two rounds of base closures and realignments.

Finally, the DoD dusted off an old friend, known as OMB Circular A-76 to implement the third major reform policy initiative. Of course, DoD all along could and would employ so-called re-

ductions in force, or RIFs, to reduce the bureaucracy in order to save money.

In any event, OMB Circular A-76 was employed in tremendous fashion for many reasons that will be clear in a moment.

□ 1415

A-76, as it is generally referred to as a tool to conduct a public versus private competition in a commercial activity in order to determine if those jobs are best performed by the government or by the private sector, initially cost was the sole determinant and, to a large degree, it still is.

More typically, however, the Department of Defense has moved towards a so-called results based assessment in which the winner of the public/private competition is judged on how best they can perform a task based on the quality of the outcome of the work, balanced by price considerations.

For example, if an A-76 study determines that a particular job would be better performed by the private sector, the government agency that conducted the study would be able to lay off those civil service employees based upon that independent empirical data. The particular agency's bureaucrats claim that they are justified in these decisions because numbers do not lie. In the alternative, statistics have shown that when a study is won by the civil servants, remember there is a competition as they reinvent themselves, there is still a 30 percent reduction in cost. This fact alone supports the so-called win/win touted by A-76 proponents.

If the public sector employees are allowed to bid for their jobs at a lower rate and they out bid the private contractor that has been brought in by the government, they are allowed to keep their jobs. So, therefore, a lot of people think that all of a sudden this is a win/win situation.

Sounds great. The problem is that these cost cutting advocates overlook the simple fact that the government is not a business. Could the government be made more efficient? Definitely. More responsive? Undoubtedly. Well, how about more cost effective? Well, it depends on how you measure cost. True, practices that enabled famous \$600 hammers and \$3,000 toilet seats needed to be rooted out but when one looks at hard-to-define requirements such as military readiness, what is inherently governmental, what is the measure of a good value and what about the men and women who make up the civil service, who have long done so out of patriotism and job stability and good benefits and fair play? They are not out to bilk the government or run up costs for profit like many unscrupulous contractors who win these bids point of fact do in the end.

What we are looking at are two distinct but related things. First is the general policy of reducing the Federal civilian workforce and outsourcing

that work to the private sector. The second is the dynamics of A-76 process itself and for both I would like to use the Guam experience on that, because right now, as we speak, the largest BOS contract, so-called Base Operation System contract, to date as a result of the A-76 process is being implemented with Raytheon, the winner, in Guam and effectively putting out of focus about 900 jobs in Guam.

Now, Guam's story on this began with the Base Realignment and Closure Commission in 1995. What the Navy did was that they decided in 1995 that they wanted to close down a unit in the Naval Activities Section of Guam called the Public Works Center, and when the Navy was turned down by the BRAC Commission, allowed to realign it but they were not allowed to close down the Public Works Center, they then decided that they would apply A-76; therefore creating a tremendous sense of loss because the BRAC process is the process that was outlined by Congress and by law to make a fair assessment of what can be closed and what cannot be closed.

When the Navy lost their claim that the Public Works Center on Guam should be closed or realigned downward in dramatic fashion, they didn't say, okay, we tried it in front of the BRAC Commission and we lost. They turned around and then dusted off A-76 and went ahead and did it anyway.

So in the spring of 1997, the Navy announced that they were going to look towards the bundling of all kinds of functions in this particular situation and offer them up to a private contractor or to the public sector. In other words, letting the workers themselves bid in something called a most efficient organization.

The Navy justified using a Base Operating System contract, taking such diverse things as providing day care to loading ordnance to house maintenance, and bundling them all in one contract because they said that this was the way that they would get an economy of scale.

Another cost saving measure that was being considered by the Navy at the time was to use foreign or H-2 workers which were allowed into Guam and therefore it would significantly depress the costs of the contractor, thereby competing more unfairly with the existing civil service.

So after I heard about, in particular, the foreign labor possibility, I introduced an amendment to the Department of Defense reauthorization prohibiting the use of H-2 workers on any Base Operating System contract that would be contracted out in Guam, but the Navy continued on. The Navy continued on with the BOS contract.

Now, the BOS contract was designed to bid out a significant amount of money to one single contractor. In the end, it was Raytheon that won this contract.

Now, the Navy attempted to sell this to the people of Guam saying even

though the likely winner would be a contractor that would not be from Guam, there would be a lot of subcontracting out to local contractors. I did not take them at their face value and I invited the Small Business Administration, and with SBA's help we were successful in garnering approximately \$65 million in small business set-asides.

So even though the Navy was unwilling to do this, we had to bring them in and then get them to say, look, if you are going to privatize this at least try to benefit the private companies in the local community. So we were able to do this.

In the meantime, you had at work the civil service employees who were being asked to consider the possibility of bidding for their jobs that they used to have in what is called a most efficient organization. Imagine if you were employed in a company and the managers of the company came to you one day and said, the only way that you can conceivably hold on to your jobs is that we are going to bid out your jobs against another company, a private company, and if you can prove to us that you can do the work that you do now for less money than the private company is bidding, you will be able to keep your jobs. That is basically what they were confronted with.

Now, in the meantime, the local civil service employees, the American Federation of Government Employees Local 1689 and the local union, is generally well placed to challenge and fight the A-76 process and they have done so from time to time trying to figure out how to be helpful, but they continually asserted that all that was needed, at least some of their leaders continually asserted that somehow or another Congress would simply pass a single amendment that would simply exempt Guam specifically from this process, kind of a silver bullet technique which I told them was not realistic and which in light of all the things that have gone on with all the privatization efforts certainly is unrealistic.

Well, the Navy last fall decided and announced that Raytheon Technical Services was the winner and finally this past January the Navy announced that the base operating support functions would be sent out to the private sector for performance. The in-house servants, these are the people who actually work these jobs, had bid \$600 million for what was approximately a \$900 million operation.

Raytheon, which won the competition, bid at \$321 million. The huge disparity in the bids is testament to the Navy's disenchanting efforts in assisting the local workforce and the inherent weakness in the A-76 process, which there is still inadequate union input.

The study on Guam analyzed some 1,200 positions, 950 at the Public Works Center alone. Many of these workers have pursued the DOD's general priority placement program which enables

alternative Federal employment on a worldwide basis. Others choose early retirement. Those who left who face involuntary separation will earn the so-called right of first refusal for the contracted jobs with Raytheon, meaning that at the end of the day if you cannot find a job somewhere else within the civil service system or you are too young for early retirement, you have the right of first refusal. Raytheon offers you the job, more likely at a rate 20 percent, 30 percent less than what you used to make for the same job, and you have the right to accept it or you have the right to turn it down.

Now, the A-76 process is not the best of methods to mete out savings. However, in some respects it does afford the civil service an opportunity to fight it out and occasionally the MEOs or the civil service employees win in various A-76 studies that have been conducted around the country.

A-76 is criticized by both the public workforce and the unions, as well as the private sector who view the process as favoring the government, not to mention the costs they generally must expend in order to win. It has long been a concern of many Members of Congress, particularly those who sit on the House Committee on Armed Services, that the Department of Defense has placed so high a stake in the outsourcing and privatization process that it is literally not only threatening the livelihoods of those loyal civil service workers who have been employed for the Department of Defense for a long time but it is threatening the very readiness of our military forces.

In 1999, the Department of Defense announced that by fiscal year 2005, over 230,000 positions will have been studied for possible outsourcing. The department estimates that by that time they will have saved some \$11.2 billion and achieve a steady state savings rate beginning in fiscal year 2005 of approximately \$3.4 billion annually. The problem with these numbers, as we have already experienced through careful review in the House Committee on Armed Services, is that they are based on far too many assumptions. Indeed, the individual services often do not account for the costs of performing the study, especially when they extol the anticipated savings. These costs can include the paying of the cost comparison study itself as well as associated costs for voluntary separation incentive pay, early retirement benefits and the general reductions in forces, meaning RIFs.

One of the things that in our case, in Guam's case, on this, which has compounded the tragedy and the impact of this, is that when the Department of Defense carries this out, there are provisions in the U.S. law that the DOD perform an economic impact assessment on the community faced with downsizing from outsourcing. Unfortunately, this law was not passed until after the Navy had decided to go ahead with Guam's outsourcing study. Re-

gardless, the study requirement is not comprehensive and is little more than a review of surmised local economic impact.

If DOD had been required to do an impact study for Guam, it would show that Guam was really a poor model for the Department of Defense to conduct this study on a big base/small base comparison, which was part of their logic. Indeed, even the Navy abandoned this comparison study in favor of continuing forward with Guam's solitary A-76. If the Navy had been required to do this study, it would have shown that in the case of Guam the scale of the economy, which is 150,000 people, roughly about 60,000 people gainfully employed, about 1/6th working directly for the Federal Government, approximately 10,000 in the late 1980s to early 1990s, that any kind of downsizing would have had dramatic impact on the economic future of the island.

For Guam, the job loss was something of unique and dramatic proportions because we are talking about a very large number of workers in a very small community.

Furthermore, it is an erosion of part of the middle class in Guam, which helps sustain the economy, the rest of the economy in Guam, through good salaries and mortgages and all the kinds of consumer purchasing which goes on in Guam.

□ 1430

Furthermore, it had a dramatic impact on the civil service workers themselves far out of proportion to the same process being experienced by other civil service workers.

When you lose your Federal job in Guam, you cannot drive over to the next county to find another Federal job, or find another job at all. If you wanted to stay within the Federal system, it meant that you would have to sell your home and travel at least 3,500 miles to Hawaii, if lucky enough, or perhaps 6,000 miles to the West Coast, or, if very unlucky, 9,000 miles to the East Coast. In fact, people who went through the Navy apprenticeship program and had the promise of gainful employment and learned some very unique skills in their lives, were now faced with the prospect that because of the A-76 process, because of impending RIFs, they now had to uproot their families and move thousands of miles away.

The Navy completely disregards all of this because they say it is not required. Their main concern is the so-called cost savings, which, in the end, they have been unable to document. Now we have not only the impact on the Guam economy and the local economy, but we also have to consider the impact on the workers themselves.

For those workers who choose to stay on island, who choose to stay in the local community and leave the Federal service for a contractor job, they are given the so-called right of first refusal.

Let us just take a look at what is meant by a right of first refusal. The wages for this are calculated by something called a prevailing wage calculator in the Federal system. This measures a wage rate for a particular job, but does not account for the cost of consumer goods that are available on island.

Federal jobs, when you are employed in the Federal job you have your base salary plus you have a cost of living adjustment because of where you are. It depends on whether you are in a high-cost area or in a low-cost area. Guam happens to be a high-cost area. But here we have a situation where the private contractor is not required to pay the COLA, can simply ignore the COLA, and, moreover, is probably going to offer significantly less for the base pay for the same position.

I will give you a few examples of this. Case one is a management level employee working out of the Navy Family Services Section at Commander Naval Force, Marianas. She indicated that they were very busy developing the contract assurances standards for Raytheon. She indicated that this area of operation would be subcontracted. When asked if it was true that Raytheon was renegotiating the contract, she replied, with Family Services they are not meeting their recruitment goal. She added that salary offers to affected civil service staff were at least 50 percent of what they were previously making, if you compute the COLA into it.

In one case, a staff member making \$28,000, not a very high sum of money, per annum base pay, was offered \$17,000 by the contractor. She said that employees have turned the jobs down, and these are positions that require a level of experience that is not easily found anywhere, but in particular in the case of Guam, because of its isolation. Here you had a group of trained civil service employees who knew the job, who understood the job, who had been experienced in the job. They are forced to leave the island by this A-76 process. The contractor comes in and says I can do it for less, does not have the labor pool to identify, and will end up bringing in a lot of people from off island, from off of Guam, resulting in some level of displacement of the population.

What has now started to happen is that employees are being offered match-based pay without COLA, and this has resulted in an erosion of Raytheon's plan, because Raytheon has had to reconsider how they were doing this.

Now, predictably, what does that mean for Raytheon? What would that mean for the contractor? It means that the contractor might likely come back up and increase the amount of money it is going to take to carry out the award, in effect, driving the cost up, so now they are not saving the money they anticipated. It will not be long before in this continuing process that perhaps in 2 or 3 or 4 years of this

privatized contracting system, the cost of conducting, of implementing the contract, might be driven up as high as that originally bid by the civil service workers.

Case two. This refers to the Personal Property Office, which is responsible for packing and movement of service members' and dependents' personal goods. Unlike the case I just gave you, Raytheon will administer this contract.

Interviews were conducted with nine affected employees. These interviews were conducted beginning in mid-February, last month. Of the nine interviewed, only two were given offers with a simple accept or decline scenario. In both cases the employees' base pay is \$28,000, or \$12.68 an hour, and the offers were for \$8.50 an hour, a cut of about one-third. The source indicated that the company representatives are now complaining that there were activities that were being performed out of this particular shop that they were not aware of during the bidding process.

Utilizing the quadrennial review, every 4 years we get a defense review as the progenitor, the Department of Defense has conveniently been provided with a mandate to plow back the anticipated savings into modernization projects. The Department is fond of claiming that through the synthesis of private sector innovations into government operational practices they will be able to mete out the "best value" for the taxpayer. Interestingly, "best value" is not always necessarily the lowest cost.

In A-76 studies, the Pentagon has moved towards results-based work when drafting the Performance-Based Review, formerly the Public Works Statement. This calculus is then used to devise the request for proposal which both the public and private sector then bid on. One of the negative results of this is the creative financing that a contractor employs when devising its bid against the public workforce.

Now, for example, at the Public Works Center in Guam, Raytheon, which won the bid in the public-private competition, now has a dubious plan to hire workers for a 32-hour work week to perform base operation support. Raytheon used the 32-hour configuration to win the bid, claiming that they could accomplish the entire workload that previously was done by the civil service. The goal, they claim, was to hire as many of the former civil service employees as possible. The rub is that, of course, very few of these former workers are taking the positions, because the pay is too low and the benefits are far less.

So if you were bidding for the contract, let us say you worked in the shop and there were 15 of you civil service employees and your work was up for this A-76 review, there are 15 of you, so you are now going to find a way to bid. Well, you anticipate you are going to take a pay cut, and maybe you

will conclude that, well, maybe 13 of us can do what the 15 used to do formerly. But now, in the meantime, the contractor is outbidding, and in this instance has used the strategy of cutting back on 20 percent of the hours, but still giving the illusion that they are giving everybody the right of first refusal.

It is very, very convenient, very effective, to be able to demonstrate and dramatize that you have actually brought costs down. But, in the long run, we know those costs are going to start creeping back up.

So, what is Raytheon going to do? Well, they will have to renegotiate so they can hire workers at a higher rate. This seems almost like Raytheon lowballed the contract in order to win, and is now claiming they cannot comply with the terms. So now they will negotiate for more money.

There is no savings to be had here. The bottom line is that most of Guam's brightest civil service workforce has already left the island, a brain drain, and those who are left are going to have a very difficult time.

Unlike BRAC, there is no job retraining for the displaced. If you were displaced by BRAC, you get some retraining. If you are displaced by A-76, you do not get job training. Guam's experience with the Navy's A-76 is an example of commercial activities administration at its worst. As a result of the dismal salaries and the 32-hour work week, many of Guam's workers are simply not taking the jobs, preferring unemployment insurance, which will pay a higher benefit.

The island has a limited population that cannot accommodate a war-time surge in work. Now, imagine this: Guam has a service of what we normally refer to as forward-deployed bases. It has to have a surge capacity, because if something happens in East Asia that brings about a conflict, there will be a dramatic increase in the nature of resupply and logistics work in Guam, not only in terms of munitions and ordnance, but also just in terms of providing supplies for American forces that could potentially be used in a conflict in East Asia.

What has A-76 done? Well, A-76 has depleted the capacity of a civilian workforce in Guam to be able to deal with such a contingency.

Furthermore, by this A-76 process, and this applies nationally, you are taking people that are younger and basically driving them out of the civil service, and the people who are going to be in the priority placement system are going to be older and they are going to be moving around from position to position within the civil service, thereby creating a general aging in the civil service workforce. Not that there is anything wrong with having an older workforce, but, in the process of managing your human resources, you want to have a natural progression of people who are older, who in turn mentor those who are younger, and who in

turn mentor those who are younger still.

Well, we are taking the middle out of that as a result of this A-76 process. The employees who decide to stay on island and who leave the civil service are permitted, as I said earlier, with a right to first refusal for private sector jobs. But we have seen this is not very meaningful when the positions being offered are far below what they were previously earning.

The local Navy command on Guam is not to blame for the inherent weaknesses of the A-76 process. In fact, I would have to say they have done a very decent job in advertising their civil service employees with regard to benefits, Separation Incentive Pay, VERA, and Priority Placement Programs. However, the methods of employment and application of the A-76 rules and procedures were applied haphazardly by Navy's Pacific Division in Hawaii, with little regard for the human toll. Their desire to save money is so egregious, apparently, among some people, that they misinterpreted what functions should be exempt.

I am just going to give one example here before I make my conclusion. One of the things when you conduct a study like this is that you are supposed to make an assessment of what kind of activity constitutes "inherently governmental." What does it mean to say that we are able to contract out everything except these positions, because they are inherently governmental?

Now, when you ask that question in terms of the Department of Defense, what is "inherently governmental?" Well, one would assume that those things which are inherently governmental are those items, those activities, which directly contribute to the war-fighting capability and readiness of our Armed Services.

In Guam's case, in this A-76 process which I have just outlined, PACDIV's assessors nominated Guam's ordnance shop for the cutting board. Now, Guam has a huge facility currently called Naval Magazine which supplies ordnance for the fleet, which is the largest magazine, largest ordnance storage facility, of the Navy in the entire Pacific.

□ 1445

But the Navy, some of these guys who are driven by this desire to save money, decided that moving around ordnance was somehow not connected to war-fighting capability or the preparation for war-fighting. Sometimes in the Committee on National Security we talk about the state of readiness; and this is an area, ordnance, where I think that if we do not have trained civil service employees with proven records, patriotic records, not dependent upon contractors who may or may not find the workers, who then have to deal with, well, what if we have a big surge of activity, we are going to have to charge even more.

So we have all of these factors, and the Navy decided that the RFP for ord-

nance needed to be let out. But it is even more incompetent than this particular issue because now the Navy has admitted that they inaccurately calculated the work data for the ordnance activity which they have contracted out; and now, today, Navy and Raytheon are renegotiating to increase the scope of the work and, guess what, move up the cost.

So there we have it, Mr. Speaker. What we have here is an example of how not to do an A-76 study, an example of how an A-76 commercial study cannot only negatively impact a community in terms of its economic base, but also deal with an almost unconcern with the human toll, the individual experience of the civil service worker, and in the process, not really understand what is inherently governmental.

We had a hearing, a joint hearing between the Subcommittee on Civil Service and the Subcommittee on Readiness over in the Committee on Armed Services last week. When I asked the question of DOD officials, what does the term "inherently governmental" mean for defense operations, and they said, well, every service kind of defines it its own way. Well, if you have the motivation to cut costs as the primary motivator in making the decision on A-76, "inherently governmental" is going to be defined in a way that is going to hurt readiness and is going to be damaging to the security and defense of this country.

In conclusion, Mr. Speaker, in light of these fallacies and problems which have occurred on Guam and which occur in other places as well with the Navy's A-76, I am calling for two things: one, I am calling for the Navy to explore halting the implementation of this contract, exploring every possible avenue to stop and take a breather on this contract until many of these grievances and miscalculations can be reassessed. Secondly, I am calling upon the U.S. General Accounting Office to conduct an audit into the way the Navy organized, planned, and conducted this outsourcing study on Guam with seemingly little regard to the impact on the small isolated community that, relative to its population, has a dramatically significant role in the readiness of the U.S. military in the western Pacific.

Finally, our beleaguered civil servants are beginning to emerge as a kind of endangered species. As times and practices change, they too will have to adapt in order to remain relevant in the national defense arena. In spite of this, they should not have to endure negative fallout as a result of DOD's panacea called outsourcing, notwithstanding their own admitted skepticism.

The DOD must do better in bridging the benefits gap to alleviate displaced employees, especially when, inevitably, many will lose their livelihoods. In the end, all DOD may be left with is reduced readiness, a degraded military capability, and an exiled civil service

workforce that collectively contributes to the weakening of America's national security policy.

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U.S. GOVERNMENT SHOULD HONOR COMMITMENT TO MILITARY RETIREES

The SPEAKER pro tempore (Mr. MILLER of Florida). Under the Speaker's announced policy of January 6, 1999, the gentleman from Oregon (Mr. WALDEN) is recognized for 30 minutes as the designee of the majority leader.

Mr. WALDEN of Oregon. Mr. Speaker, my purpose in rising this afternoon is threefold. I would like to share with my colleagues a story that is virtually unparalleled in illustrating the difficulty many military retirees face in the effort to have their government fulfill its promise of lifelong health care.

Second, I want to salute the extraordinary efforts of a retired service member in my district, Mr. Len Gagne of Ashland, Oregon, whose selfless devotion to his fellow service members has endured long after the Government's commitment to them waned.

Finally, I want to highlight the importance, indeed the absolute necessity, of honoring our Nation's commitment to provide lifelong health care coverage to our military retirees.

Here on this picture next to me are some of the 2,500 military retirees in Oregon's Rogue Valley, all of whom entered the armed services with the explicit promise of lifelong medical care following their retirement. As most of my colleagues know, due to downsizing and the subsequent lack of space available at many military medical facilities, that promise has not been kept.

Thirteen years ago, Len Gagne and a number of retirees pictured here banded together to form a courier service to help military retirees from the region obtain prescription drugs more easily. Living in rural Oregon where the majority of military retirees live hundreds of miles from the nearest military facility makes getting prescriptions filled difficult.

The group began a service to get prescription drug orders filled at the Army Medical Center at Fort Lewis, Washington. Now, the prescription orders for these men and women were sent to Eugene, Oregon, and then to Fort Lewis where they were later picked up by volunteers and driven back to Oregon. All of the costs associated with this distribution effort were borne by the private individuals and not by the Government. So unorthodox was this service that the prescriptions were stored and distributed out of a member's home for several years before the use of facilities at the Naval Reserve Center in Central Point, Oregon were made available.

About 8 years ago, the makeshift prescription delivery service shifted facilities when Beale Air Force Base, located 13 miles east of Marysville, California, became Oregon's primary care location. Twice a month, courier trips were