Appendix B

DESCRIPTION OF DEPOT MODELS CONSIDERED

In this appendix, we describe in more detail the depot models used in the analysis described in Chapter Four.

BASELINE PLUS

The Baseline Plus model refers to a restructured and improved depot system operating under full organic control by the Army. It is assumed to be redesigned to seek optimal efficiency and capacity operating within the constraints imposed by the current system. The Baseline Plus model extends the reconstructing commenced by U.S. Army Materiel Command (AMC). These improvements are significant and are key elements of the Baseline Plus model.

Under the new AMC plan signed out by the Assistant Secretary of the Army for Acquisition, Logistics, and Technology on July 29, 1999, the four-star Commander of AMC is to become the Single Manager for Army depot maintenance to "ensure that the organic depot program achieves optimal efficiency and capacity utilization to reduce the depot operating costs." Operating through the office of the AMC Deputy Chief of Staff for Logistics, Headquarters (HQ) AMC will henceforth set policy and control financial execution of the depot system. As part of the change, the five depot facilities will report to HQ AMC through AMC's Major Subordinate Commands (MSCs) rather than continuing to operate under the AMC Industrial Operations Command (IOC) (which will now focus exclusively on the Army's ordnance activities). The new MSC plan also envisions a greater role for Program Managers (PMs) and Program Executive

Officers (PEOs) at the MSCs in controlling the depot maintenance program.

FEDERAL GOVERNMENT CORPORATION (FGC) MODEL

The FGC model is discussed in the main body of the report. The key feature of an FGC is flexibility. FGCs are granted flexibility in regard to otherwise encumbering regulations and in regard to Civil Service rules and federal acquisition and disposal requirements. They are granted freedom from the political forces driving congressional actions. They are allowed to focus on a single product or service and on a limited customer base or constituency by being insulated from the demands of a multimission agency. Finally, FGCs are allowed financial freedoms unavailable to federal agencies. In particular, they can borrow money from commercial sources, they can issue debt in the form of bonds, they can be exempt from local, state, and federal taxes, and they can benefit from "off-the-balance-sheet" status, multiyear federal funding, and exemption from deficit reduction spending caps.

GOVERNMENT-OWNED/CONTRACTOR-OPERATED (GOCO) MODEL

GOCOs are a form of privatization, in which the facilities and equipment are owned by the government but operated by contractors with mostly contractor staffing. They are implemented through standard contracting methods and are entirely supported by the government. Their major advantage is their promise of efficient commercial operation of facilities for which the government is the sole customer, but concerns with oversight and control can lead to micromanagement and declines in efficiency.

GOCOs are a very common organizational structure in the government. For example, all the Department of Energy (DoE) laboratories are GOCOs. These research GOCOs are operated by universities or by university consortia. The contracts involved are generally five-year cost-plus fixed-fee (CPFF). Usually, the government and the contractor have a long-standing relationship built on mutual cooperation and trust.

PRIME VENDOR MODEL

At its most basic, Prime Vendor Support (PVS) is a concept whereby all the wholesale logistics functions for a system are performed under a system contract by a "Prime Vendor." Only operator and unit levels of maintenance are performed by military personnel or other government employees. All other maintenance of the system, repair parts resupply and stockage, reengineering, recapitalization, and modernization is performed by the contractor.

The Prime Vendor concept can be better understood by looking at the proposal for the Apache weapon system. The proposal involves giving a contractor, Team Apache Systems (TAS) (a limited liability company formed by Boeing, Lockheed Martin, and General Electric), total responsibility for wholesale-level logistics support.

By its nature, the Prime Vendor approach is not as much about the disposition of the existing depots as it is about changing the nature of how weapon systems are supported. In that sense, the concept departs from the "ownership perspective." Indeed, part of the reason the Apache proposal ran into problems is because it did not devote enough attention to the question of the effect it would have on the remaining Army wholesale logistics system. To be sure, the Apache proposal does contain provisions for sending some workload to the Corpus Christi Army depot, so it does not completely ignore the existing depot system; nevertheless, the concept is much more about finding new ways to support weapon systems than it is about reforming the way the current physical depot system operates.

PRIVATIZATION IN PLACE MODEL

Based on the Air Force's experience with its San Antonio and Sacramento depots, the term "privatization in place" refers to a private contractor (working with the local municipal authority) assuming ownership of a depot at its current location. Government employees may or may not become employees of the contractor, depending on the arrangements.

A major aspect of the controversy surrounding the San Antonio and Sacramento depots was that by announcing they would be "privatized in place" after the Base Realignment and Closure (BRAC) decisions had been made, the White House, in effect, was denying the three remaining depots in the Air Force the opportunity to add the transferring workloads to their existing work, which denied them the "protection" the additional workloads would bring against their being selected in future BRAC rounds for closure.

All this is germane to the Army situation because the Army depot system, just like the Air Force depot system before the two closures, has substantial excess capacity. The key decision is what to do with the excess capacity: maintain, transform, or eliminate. Privatization in place maintains the excess capacity, while hoping for something that can make use of it.

PUBLIC-PRIVATE PARTNERSHIP (PPP) MODEL

PPPs, which are discussed more in Chapter Two, are a perturbation on the existing AMC restructuring effort, which involves the use of government-owned property, plant, or equipment or the use of government employees to produce goods or services for the private or public sector. In all cases, the private-sector partner also contributes property, plant, equipment, or personnel to achieve the end goal of the partnership. The enabling legislation for these partnering arrangements (10 U.S.C. 4543, 10 U.S.C. 2208(j), 10 U.S.C. 2471, and 10 U.S.C. 2667) states that there can be no other commercial source that could reasonably provide the product in the required time frame and of the required quality and quantity. The 1997 IOC guidance for determining commercial availability required that cost not be a consideration in this determination.

The Army depots have led the way in DoD for exploring this alternative. In particular, Anniston, Red River, and Tobyhanna have ongoing partnerships with private industry in a variety of areas. In each of these cases, the Army has awarded a contract to a private-sector company. The contractor decides that subcontracting with the depot for a portion of the required scope of work would be efficient and statutorily allowed. A contract is signed between the company and the depot, with proceeds paid in advance, which the depot uses to reimburse the working capital fund (WCF). PPPs are one way of "giving back" some work to the organic depot system that is contracted out. Although the opportunity exists in PPPs for the depots to provide goods and services for the private sector, not the government sector, there are very few occurrences of this situation.

The Army also uses work-sharing arrangements with private-sector companies that do not require a contract—only an agreement at the PEO or PM level that the workload will be split. Funding is allocated directly for the depot work and separately for the private-sector work. There are no contracts between the depots and private-sector companies, although memorandums of understanding are exchanged. We exclude these arrangements from our consideration of PPPs because they are an agreement that is included in the restructured AMC depot option discussed above.