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CASE Series

Downsizing the Navy: Privatization of the Naval Air Warfare Center Aircraft Division, Indianapolis

31 July 2004

by

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Disclaimer: The views represented in this report are those of the author and do not reflect the official policy position of the Navy, the Department of Defense, or the Federal Government.

Downsizing the Navy: Privatization of the Naval Air Warfare Center Aircraft Division, Indianapolis

Teaching Notes

Case Objectives

- *Strategic*: When faced with a future facility decision (from a base closure to simply a desire to enhance productivity and efficiency) (1) identify and analyze the stakeholders; (2) develop top-level objectives and guidance, with an overarching process framework; and, (3) develop and evaluate alternative courses of action, completing "customer satisfaction," business case, risk, and human resource analyses.
- *Tactical*: Once an alternative is selected (in this case, privatization), develop a detailed implementation plan to address (1) transition issues; (2) economic development and agreement terms and conditions from City and business perspectives; (3) contract terms and conditions from the business and Navy perspectives; and (4) employee considerations.
- *Lesson Learned/Reflections*: Identify potential risks and mitigations, barriers to effective and efficient implementation, success factors, and best practices; and make recommendations for future privatizations.

This case is divided into three sections.

Part I describes the history of the Naval Air Warfare Center, Aircraft Division, Indianapolis (NAWC-ADI); the Base Reuse and Closure (BRAC) process; introduces the key players; and describes the preliminary options put forth for the Navy and the City of Indianapolis.

Part II discusses the "wins" for the Navy; explains how the details for implementing a privatization-in-place were worked out; shows how conflicts were resolved; and describes the award and negotiations processes.

Part III describes what happened to NAWC-ADI after the privatization-in-place, and offers a commentary on the BRAC process, as a whole.

Downsizing the Navy: Privatization of the Naval Air Warfare Center Aircraft Division, Indianapolis

Part I

Introduction

It was just another day in the office for Steve Carberry, the Executive Director for Contracts at the Naval Air Systems Command (known as NAVAIR), when Carberry's boss, NAVAIR's Commander, Vice Admiral John Lockard, asked to see him. Lockard was known for tackling tough issues, and this time he wanted to enlist Carberry's support for his latest challenge. Lockard asked Carberry to head a NAVAIR team tasked with exploring the feasibility of privatizing the Naval Air Warfare Center, Aircraft Division, Indianapolis (NAWC-ADI). As Carberry researched his new assignment, he began to appreciate that NAWC-ADI had a complicated but fascinating history.

The NAWC-ADI Facility

The 163-acre World War II-era facility was originally opened as a bomb-making facility in America's heartland, far enough in-land to be insulated from the German threat. NAWC-ADI subsequently had developed as an electronics center of excellence, designing, producing, and sustaining advanced electronics for defense applications, including missile guidance technology. The 62-building, 984,000 square foot facility employed almost 2,500 people – over 1,900 were highly-skilled engineers, logisticians, and manufacturing personnel. NAWC-ADI – whose basic products included aviation and aerospace electronic systems; weapons guidance, control, and launch systems; ground-based electronic systems; and shipboard electronic systems – was the only Department of Defense (DoD) organic resource that had the capacity to take projects from concept through design and to production, all under one roof.

In the early 1990s, NAWC-ADI underwent an internal reorganization geared around productivity-enhancing "acquisition reform" that was so successful that it became the model for other such reorganizations – including NAVAIR, its parent organization. The workload grew to include a broad array of technical support across the full spectrum of Naval Electronics Systems – and its mission was to:

> ". . . conduct research, development, engineering, material acquisition, pilot and limited manufacturing, technical evaluation, depot maintenance and integrated logistics support on assigned airborne electronics (avionics), missile, spaceborne, undersea, and surface weapon systems, and related equipment."

The customer base – much of it outside the Navy – was very satisfied with NAWC-ADI. Most important in the eyes of DoD, NAWC-ADI "saved the military more than $200 million in the 1990s" by, for example, reducing indirect costs by nearly 30 percent between 1991 and 1995.[1]

But despite these accomplishments, NAWC-ADI was in trouble.

Problems at NAVAIR

A number of insiders believed that NAVAIR as a whole was in peril. According to insiders, NAVAIR's customers were deeply disappointed with their performance. Products did not meet their requirements, and they were always overpriced. On top of that, it took "years and years to get stuff out to the fleet."[2] NAVAIR was perceived as eating up the infrastructures of the Navy's Systems Command without adding any value to the operations; and there was perceived to be a large duplication of the Air Force work.

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[1] Jim Wheeler and Susan Walcott. "Anatomy of a Successful Privatization." Indianapolis: Hudson, 1999. p. 10.

[2] Steve Carberry interview with William Lucyshyn and Luci Stevens. 17 November 2003.

Paranoia had set in. In 1993, NAVAIR Headquarters was slated to be moved from Crystal City, Virginia to Patuxent River, Maryland to increase that facility's business base and to keep it away from Wright-Patterson Air Force Base in Ohio, which had plenty of room available. NAVAIR decided to launch a preemptive strike to save itself. Through a variety of efforts, it aimed to reduce its staffing by nearly 50 percent, from 59,000 to 31,000 employees.

Put simply, "NAWC-Indy didn't have anything that couldn't be moved."[3]

The Base Reuse and Closure (BRAC) Process

With the end of the Cold War, the Department of Defense (DoD) significantly reduced the size of the military forces. Budgetary pressures were driving DoD to look for ways to shed infrastructure while freeing funding for force modernization initiatives. But when it came to closing facilities, political realities always caused resistance. In an effort to depoliticize this process, Congress passed the Defense Base Closure and Realignment Act of 1990.[4] The Act established three rounds of review – one in each of 1991, 1993, and 1995.

The BRAC process requires the Secretary of Defense to make recommendations to an open and independent blue-ribbon Base Closure and Realignment Commission (BCRC) comprised of eight members nominated by the President and confirmed by the Senate. The BCRC then reviews these recommendations and compiles its own recommendations, which are forwarded to the President. The President reviews the Commission's recommendations and either sends them back to the BCRC for additional work or forwards them in whole to Congress. Absent a joint resolution of Congress expressing disapproval, the Commission's recommendations are implemented.

For the BRAC-1995 round, DoD emphasized cross-service use of common support assets, including depot maintenance, laboratories, test and evaluation facilities,

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[3] Ibid.

[4] See P.L. 101-510.

undergraduate pilot training, and medical treatment facilities.[5] The Secretary's recommendations are based on a 6-year force structure plan, and the eight criteria for selecting bases to close or realign are spread across four categories for review (see Table 1).

Table 1. Criteria for Selecting Bases to Close or Realign

Category	Criteria
Military Value	1. Current and future mission requirements and the impact on operational readiness of DoD's entire force. 2. The availability and condition of land, facilities, and associated airspace at both the existing and potential receiving locations. 3. The ability to accommodate contingency, mobilization, and future total force requirements at both the existing and potential receiving locations. 4. Cost and manpower implications.
Return on Investment	5. The extent and timing of potential costs and savings, including the number of years, beginning with the date of completion of the closure or realignment, for the savings to exceed the costs.
Impact	6. The economic impact on communities. 7. The ability of both the existing and potential receiving communities' infrastructures to support forces, missions, and personnel. 8. The environmental impact.

[5] David R. Warren. "Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment." GAO/NSIAD-95-133, April 1995.

The 1995 Base Reuse and Closure Round

The BRAC process had been used to select bases for closure in two previous years – 1991 and 1993 – prior to the 1995 round. Because the easy cuts were made in the early rounds, 1995 proved to be "both technically and politically the most difficult BRAC round."[6] The Navy was faced with some hard decisions. Although NAWC-ADI was an excellent facility, in the end, it could not compete with the other NAVAIR facilities that could do engineering work *and* also support flight operations. Moreover, NAWC-ADI's geographical location did not correspond with the Navy's plans to shift major operations to the East and West Coasts. Therefore, the Navy forwarded NAWC-ADI to DoD as a candidate for closure. In 1995, DoD issued the following recommendation to the BRAC:

> "Close the Naval Air Warfare Center (NAWC), Aircraft Division, Indianapolis, Indiana. Relocate necessary functions along with associated personnel, equipment and support to other naval technical activities. . . ."[7]

NAWC-ADI was placed on the dreaded base realignment and closure list, slated to meet the same fate some 402 military facilities met in the two previous rounds.[8]

Enter Mayor Stephen Goldsmith

Typically, base closures resulted in the relocation of personnel and equipment to other bases – in this case, NAWC-ADI assets would be moved to the China Lake, California and Patuxent River, Maryland facilities. NAVAIR was performing triage –

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[6] Wheeler and Walcott, op. cit., p. 11.

[7] Federal Register. 1 March 1995. Volume 60, Number 40. p. 11485.

[8] 250 military bases were listed for closure, and 152 more facilities were scheduled for realignment.

sacrificing Indianapolis would shore-up the China Lake and Patuxent River operations, and then considered the jewels of NAVAIR.[9] But was there a smarter way to proceed?

The entrepreneurial mayor of Indianapolis, Stephen Goldsmith, proposed transferring the NAWC-ADI personnel and equipment to the private sector. Goldsmith had been inaugurated as the Mayor of Indianapolis in January 1992, and he immediately began transforming the city into a "marketplace for municipal services."[10] He changed more than 60 city functions "from government monopolies into services that compete[d] in an open market."[11] These changes usually resulted in improved performance at reduced costs. For example, privatizing wastewater treatment in the City of Indianapolis reduced operating costs by 44 percent, increased employee wages, and reduced employee grievances by 99 percent.[12] A contract with Corrections Corporation of America (CCA) reduced jail overcrowding, while also saving $20 million in new construction costs and $1.4 million in annual operating expenses.[13] But competition did not always result in privatization. When Goldsmith competed the City's trash collection business – a large part of which already was being serviced by private, though non-competitive, companies – City crews actually won back some of the contracts, saving $15 million, or 25 percent.[14]

By the time NAWC-ADI was placed on the BRAC list, Goldsmith was well known for his innovative leadership – he even was known locally as "Mr. Privatization."[15] A more appropriate moniker, however, might have been "Mr. Competition."

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[9] Stephen Goldsmith and Larry Gigerich interview by William Lucyshyn and Luci Stevens. 18 December 2003.

[10] William D. Eggers and John O'Leary. "Revolution at the Roots." New York: The Free Press, 1995. p. 106.

[11] Ibid, pp. 105-15.

[12] Stephen Goldsmith. "Making Government Cheaper and Better – Indianapolis mayor Stephen Goldsmith's economic policy." USA Today (Magazine), January 2000. Vol. 128, Issue 2656, p. 11-12.

[13] Ibid.

[14] Eggers and O'Leary, op. cit., pp. 107-108.

[15] "From boots to electronics: shutting military bases." *The Economist*. 21 June 1997.

Forewarned . . . and Forearmed

In late 1992, before the BRAC-93 process officially even began, Goldsmith began learning more about NAWC-ADI's business by meeting with the leadership, touring the facility, and speaking with employees. In early 1993, with a good understanding of the business, Goldsmith and Larry Gigerich – a senior advisor to the Mayor and a member of the Indianapolis Economic Development Commission (IEDC) – began lobbying key Navy officials involved in the BRAC closures in Washington, D.C. Lew Lundberg, then-Technical Director of NAWC Headquarters, and Vice Admiral William Bowes, then-Commander of NAVAIR, told Goldsmith and Gigerich that if not 1993, then 1995 was the year to expect a possible base closure. Echoing these sentiments were Robin Pirie, head of the Base Structure Evaluation Committee (BSEC) and Assistant Secretary of the Navy for Installations and Environment (ASNI&E), and Charles Nemfakos, Executive Director of the Base Structure Analysis Team (BSAT) and former Assistant Comptroller of the Navy. Thus, even though NAWC-ADI was spared from earlier BRAC rounds, the facility's vulnerability was made known by the Navy, especially because it did not fly or float, or have ports or runways. It became clear that the City would have to fight to make NAWC-ADI more competitive and keep it open.

Even though Navy officials were undecided whether it would be better to wait for a closure decision to float an alternative, to have counterproposal options at the ready in case of a closure decision, or to fight closure altogether, the City and NAWC-ADI, led by Mayor Goldsmith, pursued a strategy of keeping the facility open by presenting alternative plans that both raised the value while reducing the overall costs of the Indianapolis operation to the Navy. Throughout 1994, Goldsmith continued to meet with federal and state political representatives to coordinate strategies and discuss alternatives with the Navy. With the help of the Hudson Institute, the City of Indianapolis continued to refine its alternatives, while also identifying which alternatives might be politically feasible.

Initial Alternatives, and Privatization as a Potential Backstop

In the face of these dire predictions, Goldsmith began preparing for the worst outcome by forming alternatives to closure before the BRAC-1995 process even began. The City started with four broad options that focused on increasing the military value of NAWC-ADI while reducing costs to the Navy, in order to make it more competitive with other bases. Each option came with its own set of advantages and disadvantages. First, the Navy could build on NAWC-ADI's "Smart Buyer" function. Second, the Navy could use the Indianapolis transportation hub to its advantage to turn NAWC-ADI into an "Emergency Supply Center." Third, the City could work with the Navy to find a private buyer – though this option repeatedly was dismissed as premature because no closure decision had been reached. Fourth, the City could promote a functional consolidation with the Crane Division, Naval Surface Warfare Center and/or its Louisville operation.

Privatization was considered as the City's fallback position rather than as a first line of defense. Goldsmith and Indianapolis already were benefiting from other successful privatization and public-private partnership activities. Goldsmith gave his aides two pieces of guidance in formulating the fall-back plan. First, in order to be attractive to commercial companies, NAWC-ADI had to retain its employee assets and be marketed as an ongoing operation. Second, the market had to produce the best proposal, which necessitated a competitive bidding process. Analysts from two Indianapolis companies heavily involved in DoD-related work – Allison Engine and Allison Transmission – embraced privatization as both worthwhile and plausible.

Modest Proposals: Refining and Narrowing the Options and Alternatives

Goldsmith and the City continued to refine their initial options based on new information and analysis, and their discussions with both the NAWC-ADI leadership and rank-and-file employees. They developed four broad options based on the initial set. The first option was to build on Indianapolis' role as a national air freight and distribution hub. This option would mimic the radical logistics restructuring taking place in private industry. However, there was no internal champion, and it did not have a discernable effect on key Navy decision-makers.

A second option sought to privatize certain on-site business units. Because the funds for NAWC-ADI's "competency aligned" and highly efficient operations came from customers' orders, it was close to a market-sensitive business already. Moreover, NAWC-ADI was becoming increasingly involved with government, academia, and private industry in an electronics technology transfer consortium. This allowed it to keep pace with the complex and fast-changing electronics environment without losing responsiveness, which, in turn, allowed the Navy to function as a "smart buyer." Despite these big positives, this option did not mesh well with DoD's downsizing criteria, and it, too, was discouraged. A third option either would transform NAWC-ADI into a government-owned, contractor-operated (GOCO) facility or keep NAWC-ADI around as a Federally Funded Research and Development Center (FFRDC). The former was discouraged because of the Navy's concern with cutting assets. The latter was discouraged because of potential political perceptions – the Navy worried that it would be perceived as funding a non-profit entity that ultimately would compete with the private sector instead of actually cutting costs.

A number of realignment scenarios were considered, mostly teaming NAWC-ADI with Crane. NAVAIR had a greater desire to reduce infrastructure than NAVSEA, who controlled Crane. It was generally accepted, though, that if significant savings could be realized, NAWC-ADI could be changed from NAVAIR to NAVSEA, and the Indianapolis operation might be able to remain open. A study by the Hudson Institute estimated a possible annual savings of $50 million – without closing any of the Louisville, Crane, or Indianapolis facilities. However, the Navy brass pointed to the formidable claimancy issue – that is, who had the right to claim or assert primary command and control over which entity. Transferring NAWC-ADI from NAVAIR to NAVSEA would blur the boundaries of who had control of – and took responsibility and claimed credit for – the facility, also posing recordkeeping challenges related to shifting employees and workloads. Ultimately the claimancy issue doomed this proposal.

In sum, even these refined options were largely ignored – they either were torpedoed by a major decision-maker, or the Navy felt that it could not review options that did not fall within the narrow BRAC structure.

In the meantime, however, NAWC-ADI received the designation of "Reinvention Laboratory" in support of its restructuring initiatives, which gave it greater flexibility and allowed it to seek waivers from certain constraining regulations.[16] Goldsmith continued to meet with top Navy and DoD officials and a Congressional delegation of supporters, led by Senator Richard Lugar (R-Indiana). Goldsmith's already aggressive schedule intensified as the Base Closure and Realignment Commission (BCRC) decision approached. As it became obvious that the merger with Crane would not work, Goldsmith and the City of Indianapolis began to push the privatization option to the fore, emphasizing the successes the City had already had with public-private ventures.

A Decent Proposal: Lobbying for Logic

In Spring 1995, after the initial BCRC decision to close NAWC-ADI and as Carberry was constructing the protocols for proceeding with the closure, Goldsmith began lobbying to ensure that the closure was done "in a logical way."[17] Goldsmith was scheduled to appear before the BCRC, whose mission was to guarantee that "a fair process [would] result in the timely closure and realignment of military installations. . . ."[18] Unlike other mayors of cities containing targeted bases, Goldsmith did not try to appeal the closure decision. Instead, he tried to convince the BCRC that privatizing the facility was advantageous to the Navy, meeting the twin goals of downsizing and retaining NAWC-ADI's core military capabilities. Goldsmith argued that what NAWC-ADI was doing was:

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[16] A Reinvention Laboratory, created as part of the National Performance Review, was defined as "a place that cuts through 'red tape,' exceeds customer expectations, and unleashes innovations for improvements from its employees" at the first Reinvention Lab Conference at Hunt Valley, Maryland in October 1993. The National Partnership for Reinventing Government Task Force redefined Reinvention Laboratories as "innovative organizations or activities that are established to test or prototype new 'reinventing government' initiatives. The reinvention laboratories are empowered to begin experimenting with radical new ways of doing business, and share their ideas, successes and lessons across government."

[17] Wheeler and Walcott, op. cit., p. 17.

[18] Quoted. in Gregory A Hogan. "Evaluation of Military Base Closure Alternatives." Virginia: February 1997. p. 1.

> "Not inherently government work. We said, 'We can help you fulfill your mission better.' Our thesis was that the Navy would become a procurer. We based our argument on the business case – that [NAWC-ADI] had the lowest costs and lowest rates in the Navy, and [the products] are high-quality. *We're the best value.*"[19]

According to Goldsmith, the BCRC staff called the proposal the most creative base closure response in the country, and they requested a white paper detailing the proposal.[20] But what he really was doing was "looking for a congruence of goals" between the City and DoD.[21]

Specifically, the Mayor proposed that the City or the State would assume ownership of the resources and would take on the operating and maintenance costs. The plan also focused on the savings that the government could realize by leaving the NAWC-ADI employees in Indianapolis as opposed to spending millions of dollars transferring them. Furthermore, a privatized facility could take on other commercial or governmental work in addition to the Navy work. Such arrangements would help provide a smooth transition for DoD clients.[22] Goldsmith framed the issues as economic and human resources considerations, and, in doing so, he escaped much of the messy politics that stymied the efforts of other mayors and governors who fought similar base closures while also putting forth a proposal that intrigued the BCRC members.

The BCRC's Revised Recommendation

On July 14, 1995, the BCRC recommended that the President either "transfer workload, equipment and facilities to the private sector . . . ***or*** relocate necessary functions along with necessary personnel, equipment and support to other naval

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[19] Goldsmith and Gigerich interview, supra. Interviewee's emphasis.

[20] Wheeler and Walcott, op. cit., p. 16.

[21] Goldsmith and Gigerich interview, supra.

[22] Wheeler and Walcott, op. cit., p. 17.

technical activities. . . ."[23] Ultimately, the Commission left the decision to relocate or privatize up to the Navy. Subsequently, the Navy drafted a long list of issues (see Appendix A) that would need to be addressed before privatization could be pursued. The ownership structure, environmental contamination, and human resources issues were just some of the Navy's concerns.[24]

In addition, Vice Admiral Lockard was particularly concerned about the legal issues associated with such a large scale privatization effort – most significantly, which contractual approaches would support privatization if it were to proceed. In addition, Navy officials were concerned with political perceptions, and they wanted to ensure that privatization was not perceived as a way of skirting outright closure. Internal Navy politics also were problematic, as other Navy sites were vying for NAWC-ADI's personnel and workload.

But from many angles, the fate of the employees was the biggest issue. Everyone recognized that "without the employees, there was nothing to privatize" – and, about 200 people from NAWC-ADI left to seek other employment locally while the privatization option was being investigated, including some people from the NAWC-ADI privatization team.[25] Vice Admiral Lockard proposed that 80 percent of the issues would need to be resolved before the Navy could consider moving forward with the privatization of NAWC-ADI.

At the same time, the BCRC recommended the closure of two Air Force Air Logistics Centers – Kelly Air Force Base in San Antonio, Texas, and McClellan Air Force Base in Sacramento, California. In light of rising unemployment and the large number of electoral votes at stake just before the 1996 election in the already economically hard-hit areas of Texas and California, President Clinton encouraged the

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[23] Emphasis added. Defense Base Closure and Realignment Commission. *1995 Report to the President*. pp. 1-59.

[24] Wheeler and Walcott, op. cit., pp. 44-45.

[25] Carberry interview, supra.

Air Force to consider privatization as an alternative to closing the bases, breaking his promise not to politicize the BRAC process. Nevertheless, "The McClellan Effect" played out well among the public, and the Navy began to consider privatization as a viable option for Indianapolis.

Both George Stephanopoulos – then the Senior Advisor to the President for Policy and Strategy – and President Clinton were familiar with the details of the privatization efforts. The White House exerted significant pressure on the BRAC decisions. Staffers took a keen interest in seeing the NAWC-ADI privatization proceed, and when it came time to close the Texas and California bases, the BCRC was instructed to "Do it like NAWC-Indy."[26]

Vice Admiral Lockard Commissions Steve Carberry's Help

Eventually, Goldsmith's innovative ideas caught the attention of the Commander of NAVAIR, Vice Admiral Lockard. Although Lockard supported the BCRC decision, he knew that the potential impact on the civilian employees would be significant. These were all excellent, highly-skilled employees who had served the country well, and he believed the Navy should do what it could to help with their transition to the other bases. Vice Admiral Lockard also was attracted to the NAWC-ADI facility because it had developed an entrepreneurial attitude. And, as Table 2 shows, even with the declining DoD budget, their revenues were expanding, with much of the work coming from agencies outside of NAVAIR.

Vice Admiral Lockard therefore decided to investigate Goldsmith's ideas as a means to "minimize disruption to employees' lives," acknowledging that privatization could be a way to ensure that the displaced NAWC-ADI workers stayed at the Navy's beck-and-call, while also seizing "an opportunity to show more connection between industry and government – [the relationship] is not either/or."[27] He knew that the

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[26] Ibid.

[27] Lockard personal interview with William Lucyshyn and Luci Stevens. 14 Nov. 2003.

operational capability of the Navy would not be jeopardized with any of the options considered. Therefore, his "personal concern was not so much to preserve the capabilities of the Navy, as it was [to] preserve the lives of the people who had worked there."[28] Although at this late phase in the BRAC process the successful privatization was a long-shot, Lockard "knew that [the Navy] always had the closure option if privatization didn't work."[29]

Table 2. NAWC-ADI Revenues Sources

Year	Revenues (in millions)	Source of Revenues	
		NAVAIR	Other
1991	$274	42%	58%
1992	$295	66%	34%
1993	$327	50%	50%
1994	$303	67%	33%
1995	$332	40%	60%

Despite Lockard's support for privatization, NAVAIR was, according to Admiral Steve Loftus, head of logistics for the Chief of Naval Operations, committed to employing a "coastal hub concentration strategy" to meet the demands of BRAC downsizing.[30] This strategy called for relocating smaller Midwest facilities to large coastal facilities that also supported flight operations. As such, NAVAIR planned to move the NAWC-ADI and Midwest-region assets to its China Lake, California and Patuxent River, Maryland facilities.

Vice Admiral Lockard had a taste for making changes in the bureaucracy – although it was challenging, he "was always out on the edge, probing" for something new.[31] So, notwithstanding the coastal concentration strategy, Lockard wanted to examine the privatization option in greater depth, and he was enlisting Carberry's help.

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[28] Ibid.

[29] Ibid.

[30] Wheeler and Walcott, op. cit., p. 15.

[31] Ibid.

Carberry knew that he now would be called on to make decisions that would have a significant impact on the operational capability of the Navy as well as alter the lives of thousands of its faithful employees. Furthermore, Carberry realized that in order to succeed in his role, he would have to pressure all of the stakeholders to work through obstacles quickly. "Time is the enemy," became his mantra.[32]

"Time is the enemy" was not just an observation or a way of life – rather, Carberry used it as a teambuilding tool. As a common enemy, it shifted the focus away from the natural conflicts between the stakeholders and emphasized the need to work together. Beyond that, portraying time as the enemy also functioned as a morale booster. Recognizing that problems were lurking around every corner, it was important to continually reassure the stakeholders that they were not "dead in the water." Instead, they had to postpone minor problems and disputes and take on serious issues as they arose.[33]

In this pressure-filled climate, Steve Carberry was tasked with finding the best way to close or realign NAWC-ADI while still maintaining its military capabilities and looking out for the employees. Developing an overarching strategy and framework would require thinking about processes and timelines that would make the change as painless as possible. Carberry recalls the uncertainty at the time of his appointment: "Where do you begin? It would be fair to say 'begin at the beginning,' but we struggled [during] probably the first four or five meetings to figure out where the beginning was – *outside* of figuring out where we were going."[34]

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[32] Carberry interview, supra.

[33] Ibid.

[34] Ibid. Interviewee's emphasis.

The Case for Privatization

"The push from the very beginning was privatization. In fact, we didn't refer to it as the close-and-move or the close-and-privatization – this was privatization."

— Steve Carberry

Mayor Stephen Goldsmith and the City of Indianapolis had won a major battle in getting the BCRC to consider privatization as an alternative to outright closure. But how did they win the battle, given that there was no precedent for such a large privatization effort? And, even though Goldsmith and the City carried the day, could they win the war against close-and-move?

In order to win the battle, they had to assert that privatization made more economic and military sense than shutting down the facility; in order to win the war, they had to *demonstrate* it. The City hired Arthur Andersen to analyze NAWC-ADI and to generate a business plan. They also hired the Hudson Institute to critique the Navy's analysis of the military value of the NAWC-ADI facility and the projected return on investment resulting from the facility's closure. The Arthur Andersen business plan consisted of three basic elements:

1. ***Economic and financial considerations:*** 1,600 of the 2,800 employees were scheduled to be moved, but many of the soon-to-be-separated employees had workload contracts that would pay for 700-800 workyears, in addition to the already contracted-out 500 workyears to be finished *after* closure.

2. ***Government savings:*** It would cost tens of millions to transfer 1,600 employees.

3. ***Workload diversification:*** The new company would take on commercial and other government work to supplement the ongoing Navy and DoD work.

It was now up to Carberry to determine whether the arguments made sense and to assess the feasibility of the proposed privatization venture. His evaluation of the situation would directly affect the lives of the 2,800 people who worked at the NAWC-

ADI facility, as well as the local economy of the already ailing Indianapolis – not to mention the other Navy facilities that were counting on picking up the NAWC-ADI employees and workload.

Wins for the City

Stephen Goldsmith, the enterprising mayor of Indianapolis, knew that the closure would seriously affect the city's economy – NAWC-ADI's contribution to the economy of central Indiana was estimated at $1 billion. At stake were some 2,500 well-paid high technology jobs – already down from the high mark of 3,200 in 1992. The scientists and engineers, whose average salaries exceeded $45,000, also provided a well-trained talent pool that benefited local facilities – including Eli Lilly and Company and Allison Gas Turbine (now Rolls Royce), among scores of smaller medical device and auto manufacturing firms. In fact, NAWC-ADI employees had the highest per capita income of any comparably-sized entity in Indiana.[35] The mayor realized that he would have to do something to minimize the impact of the DoD's decision.

The city had been through a similar ordeal in 1991 when Fort Benjamin Harrison – a pre-WWI-era, 2,501-acre Army Soldier Support Center and Defense Finance and Accounting Service facility located in Lawrence, Indiana – was placed on the BRAC closure list and its units subsequently directed to move to Fort Jackson, South Carolina and Fort Benning, Georgia.[36] The estimated cost to close Fort Harrison was $206 million, and the savings, between 1992 and 1997, were estimated at a total of $123.8 million.[37] After Mayor Goldsmith was elected in 1992, he vowed that NAWC-ADI would not suffer the same fate. Although the facility was not placed on the 1993 closure list, the mayor was advised by key Navy personnel that NAWC-ADI would not escape closure in 1995.

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[35] Carberry interview, supra.

[36] Stephen E. Bower. "The American Army In The Heartland: A History of Fort Benjamin Harrison, 1903-1995." Indianapolis: Indiana Creative Arts, 1995. The unit directed to Fort Jackson ultimately was redirected to Fort Meade, Maryland.

[37] Defense Base Closure and Realignment Commission. 1991 Report to the President. p. 5-4.

Mayor Goldsmith decided to launch a preemptive strike. He tried to sell the Navy on a myriad of creative privatization and realignment proposals. Despite his best efforts, NAWC-ADI still appeared on the 1995 BRAC closure list. The employees were "devastated . . . discouraged and broken-hearted."[38] At a meeting of the Base Closure and Realignment Commission (BCRC), instead of protesting the BRAC decision, Mayor Goldsmith said, "go ahead and close us, just do it in a logical way."[39] He then set forth the case for the privatization of NAWC-ADI.

Much to the mayor's disappointment, the BCRC left the final decision as to what to do with NAWC-ADI up to the Navy. Mayor Goldsmith feared that the Navy would close the base without seriously considering his privatization plan. However, much to his surprise, the Navy brass decided to contemplate privatization despite their many concerns, in part, because privatization was being pushed by President Clinton and seriously considered by Vice Admiral Lockard.

Under the privatization plan now being intensively evaluated by Carberry, who was acting as the principal agent of the Navy, the City or the City and State would assume ownership of the site, facilities, and equipment, and would become responsible for operating and maintenance costs. Apart from the employees being relocated, as many of the released employees as possible would be absorbed into one or more private companies to be established on site, performing work under contract to DoD. Complementary companies would be invited to locate on-site, thereby creating further employment opportunities for displaced workers, providing support for the new company or companies taking over the NAWC-ADI facilities, and sharing the facility's operation and maintenance costs. Thus, an estimated 800 to 1,000 new private sector jobs would be supported locally through these various linkages.

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[38] Quoted in Wheeler and Walcott, op. cit., p. 16.

[39] Ibid, p. 17.

Downsizing the Navy: Privatization of the Naval Air Warfare Center Aircraft Division, Indianapolis

Part II

Wins for the Navy

For both the Navy and the private company that was going to take over the NAWC-ADI operation, the business case for privatization had to make sense. Privatization options would be assessed in terms of such factors as size, lines of business, markets, ownership, capitalization, and organizational structure. The privatization plan was consistent with Navy goals insofar as NAWC-ADI would be closed as a DoD site, and the Navy and DoD would see a reduction in employment equivalent to its closure proposal. A side benefit was rather than moving 1,600 DoD employees, they would remain in Indianapolis, thus avoiding both relocation costs and extended disruption to vital Navy programs.

Initially, the new firm or firms taking over NAWC-ADI would provide products and services under the auspices of a sole-source umbrella contract, providing a seamless transition for DoD customers. In five years, the firm(s) would have to compete for DoD contracts. DoD still would retain over half of the workers, while the other half would work for the new company or companies to supply electronic products at lower costs. This public-private partnership would produce an estimated onetime savings for the Navy of $180 million and recurring annual savings estimated at $12 million. As a hedge, before NAWC-ADI closed, the firm or firms taking over would begin marketing to the private sector, so as to reduce dependence on DoD business. Table 3 below compares the costs of each alternative for the 5-year period before the contract would be reopened for competition. A detailed year-by-year breakdown can be found in Appendix B.

Table 3. Alternative Cost Comparison (TY $M)[40]

	Status Quo	Relocation	Privatization
Total Program Cost	1,428.0	1,585.3	1,384.2
Recurring Costs (5 years)	1,428.0	1,342.6	1,254.1
Non-recurring Cost	-	242.7	130.1
Labor	1,022.4	849.0	881.0
Material	381.5	457.9	357.7
Facilities	-	57.8	0.4
Environment	-	52.8	52.0
Personnel	24.1	122.3	82.3
Other	-	35.5	10.6

In light of the revised BCRC decision to consider privatization as an alternative to closure, Vice Admiral Lockard asked Steve Carberry to evaluate the issues to be addressed before privatizing, as well as the cost estimates. Most importantly, Vice Admiral Lockard placed Carberry at the conn when he asked him to recommend a strategy for the Navy.

Engineering a Successful Plan for Privatization-in-Place

The City and the Navy agreed that Indianapolis would solicit bids from private companies that were interested in taking over NAWC-ADI. The City would then select a winner, and the Navy would negotiate a contract. Although Goldsmith was on the verge of rescuing NAWC-ADI, he also was navigating uncharted waters. There was concern among the City of Indianapolis and the Navy about whether private companies would

[40] Gregory A. Hogan. "Evaluation of Military Base Closure Alternatives." Virginia Polytechnic Institute and State University Thesis: Blacksburg, VA, February 1997, p. 20.

even be interested in participating in this unorthodox process. Further, there was no precedent for such a competition, so procedures had to be carefully crafted to ensure that the process was both legal and ethical.

The main legal sticking point was the employees – leaving Navy personnel on-site was a key to the public-private partnership, but the Navy still had reservations about leaving a detachment on a closed base. The legalities were resolved in 1995, however, when Congress, under the Defense Authorization Act of 1996, authorized DoD to leave employees in leased space on closed bases.[41] Still, managing employee and workload flight after privatization would be key challenges.

Ethics concerns included procurement integrity, conflicts of interest, and switching sides, as enumerated in the United States Code (USC). According to 18 USC 423, procurement officials cannot seek employment with a competing contractor, or disclose proprietary or source selection material. For NAWC-ADI, "procurement procedures" did not commence until after the new company was selected, and merely participating in privatization discussions with the City did not automatically make any employee a "procurement official." To protect against Conflicts of Interest (18 USC 208), NAWC-ADI employees were not allowed to be involved in the selection process itself, although they could provide information to the City to assist in establishing a selection process. Although under 18 USC 207, former government officials and employees can neither represent a person before the U.S. government concerning a project on which they once worked nor engage in work involving government contracts for two years, the provision does not prohibit conversations. Throughout the process, employees were informed of potential risks, and it was possible to obtain written waivers to enable employees to participate. All in all, ethics concerns did not appear to present insurmountable barriers to privatization.

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[41] P.L. 104-106.

Identifying the Issues

Vice Admiral Lockard and Lew Lundberg – who spent 20 years at NAWC-ADI and had become the NAVAIR privatization czar before Carberry's appointment – were serious about rapidly resolving 80 percent of the implementation issues. From mid-summer to mid-November 1995, teams from the City and the Navy worked together to identify and resolve the issues. The teams did not shy away from tough issues, and the cooperative approach allowed the parties to address misunderstandings and conflicts under a set of common ground-rules and goals. The City, along with NAVAIR and NAWC-ADI teams, came to comprise the Joint Privatization Steering Group (JPSG), which took the lead in defining and working through key issues, coordinating the efforts for cross-group teams, and resolving conflicts.

Revising the List of Issues

In early October, Steve Carberry, then the head of NAVAIR contracting, took over for Lundberg; and the pressure to reach agreements quickly intensified. By mid-October, the critical issues list was distilled to ten:

1. Continued support of government customers and workload;
2. Establishing a viable private entity by supplementing its Navy/DoD business with commercial workload;
3. Operating rules and concepts for the public-private partnership (concept of operations);
4. Determining the necessary number of on-site Navy employees;
5. Identifying the type of contract and terms and conditions required for success;
6. The type(s) of private entity appropriate to the partnership;
7. The ownership of buildings, facilities, and equipment;
8. Sharing, hiring, or purchasing of staff equipment between partners;
9. Employee benefits; and,
10. Partnership budget requirements.

According to Goldsmith, who continued to meet with top officials to rally support, "Admiral Lockard asked all the right questions" to keep the process moving forward. Their burgeoning trust and mutual respect became very important as the City and Navy continued to crystallize the case for privatization and as big challenges loomed on the horizon.[42]

A survey found that 75 percent of NAWC-ADI employees had little confidence in being employed through privatization. Yet despite the lack of confidence in the City's plan, only 26 percent of the employees were willing to accept a Navy relocation, implying that a move alternative would cause high program disruptions and losses in capacity related to losses of key competencies. Actual, real-world data showed that the Navy already had lost an enormous amount of capacity because of the move requirements in other base closures and realignments.

Components of the "80 Percent Solution"

The 80 Percent Solution focused on four key elements. Although at the macro level, the elements involved issues that largely were resolved through peaceful negotiations among the JPSG players, many of the detailed steps to implementation actually were outstanding at the time the "solution" was reached. Vice Admiral Lockard and Mayor Goldsmith agreed to a policy of *not* putting anything in writing until a solution was agreed upon. This approach encouraged cooperative teaming, and, perhaps more significantly, it decreased the probability that any particular decision would be challenged. Avoiding preemptive strikes became increasingly important as the deadline loomed. It also allowed more innovative solutions to emerge when they might not have done so if the arrangements were formalized. Often, the inventive solutions placed the decisions within the already existing legal interpretations, heading-off potential legal challenges. Establishing trust, avoiding unnecessary conflict, and innovating were crucial steps for succeeding within such a limited timeframe. Even so, many people taking part in the process found the lack of structure and precedent troubling at the time.

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[42] Goldsmith and Gigerich interview, supra.

1) ***What stays, what moves?***

This issue addressed the number and types of projects that would stay at NAWC-ADI. In principle, all projects would stay in order to boost the business case upon which the private company could build and prosper. But this decision prevented other Navy sites from acquiring some key projects and thus reducing their overhead rates.

2) ***What functions must be retained by the Indianapolis government?***

In addition to considering different privatization scenarios and the associated employment implications, also of great importance were the size, function, and duration of the Navy contingent that would stay at NAWC-ADI. These decisions would alter customer perceptions and workload retention. Ultimately, an interim compromise was reached whereby a government continent of 100 to 150 would remain in FY1997.

3) ***Contractual approach.***

The City wanted – and Navy ultimately agreed to – a single workload contract to reflect cross-functional, team-based operations, similar to those that came to characterize NAWC-ADI and differentiate it from other facilities. Not-for-profit ownership was considered and rejected because of potential negative political perceptions. Moreover, in the eyes of the JPSG, it would have bypassed competition, which would hurt the commercial viability of NAWC-ADI. An option for an employee-owned company considered enjoyed bipartisan political support, and employees would have a major reason for *their* new entity to succeed. However, as a hedge against risk, NAWC-ADI would have to bring in a larger, more experienced company to help provide management skills and to prepare NAWC for competition. Even with an outside company, there still were major employee incentives for a success and a virtually seamless transition for customers.[43]

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[43] Ultimately, as was the case with SAIC, those bids that failed to lower risk to a level that employees were willing to assume were rejected. Stephen Goldsmith facsimile to William Lucyshyn, 12 July, 2004.

The players had always envisioned a large, long-term umbrella contract. Ultimately, the JPSG decided on a one-year Indefinite Delivery, Indefinite Quantity (IDIQ) contract with four additional one-year options. The details and duration of the IDIQ contract went unresolved until much later in the process. Unlike the near consensus on the IDIQ contract, the alternatives for a competitive approach were hotly debated. All sides recognized that long-term success depended on NAWC-ADI's ability to respond to market forces. As such, any transitional process had to prepare NAWC-ADI to compete in full and open competition. At this stage, though, it was deemed sufficient to focus on assessing the benefits and costs of various alternatives rather than adopting any one particular option.

4) Supporting business analysis.

The responsibility for generating a supporting business analysis belonged to the City, though the Navy later had to do its own analysis to determine the impact on NAVAIR business. Goldsmith argued that it was impossible to do such an analysis without committing to a plan, and he was unwilling to invest in an analysis that took into account the myriad options available to the JPSG. At last, a compromise was reached whereby Arthur Andersen and the Hudson Institute would conduct another feasibility study that flowed from several basic, agreed-upon assumptions. Ultimately, the case study translated the NAWC-ADI books into a financial analysis that had meaning to the private sector, analyzed NAWC-ADI's potential as a private business, and presented a business model with enough detail that the Navy and outside analysts could manipulate the basic assumptions and determine NAWC-ADI's long-term business viability. The assumptions inherent in the business analysis were crucial. While major savings could be realized from keeping the facilities, equipment, and people in-place, slightly altering the labor rates and/or retaining additional personnel could tilt the analysis away from the privatize-in-place option back to the default close-and-move option.

"Time is the Enemy"

Vice Admiral Lockard and Mayor Goldsmith met on November 17, 1995 after many issues had been resolved. However, other issues were outstanding because either the parties were deadlocked or decisions had been blocked in some way. Rather than tackling all of the remaining issues, the goal of the meeting was to lay the groundwork for proceeding with privatization. Lockard and Goldsmith agreed that privatization would be the primary option, but that BRAC closure had to be considered as a backup plan in case privatization could not be achieved.

Although it was taken as given that the City would run a competition to determine which private company or companies would take over NAWC-ADI and that the Navy would then negotiate a workload contract, the respective roles of the City and the Navy in the selection process was the focus of much concern and debate. Setting new precedent, Navy counsel determined that the City should steer the privatization because the privatization process was initiated as part of a base closure and BCRC legislation established the City's reuse planning as a major decision-maker, and this particular BCRC recommendation put particular emphasis on Mayor Goldsmith's initiative.

Also coming out of this meeting was Vice Admiral Lockard's desire to speed up the privatization process. Specifically, he wanted the privatization to begin in 1997, agreeing that if Goldsmith met his goals in a suitable timeframe, a workload contract could be finalized by October 1, 1996. Lockard also explained that it was necessary to determine the "character and workload" of the new company *before* determining the size of the Navy employee detachment to remain in Indianapolis. In December 1995, Lockard sent a message to NAWC-ADI customers supporting the privatization plan and directing them to continue their business with the facility. He also asked that NAWC-ADI's customers who considered taking their business elsewhere contact him first. John Douglass, who had just become Assistant Secretary of the Navy for Research, Development, and Acquisitions, sent a similar letter to the Navy Program Executive Offices (PEOs).

Soliciting Proposals

At this point, there just was not enough time to meet all of the Federal Acquisition Regulation/Defense Federal Acquisition Regulation (FAR/DFAR) standards. Carberry realized an awful paradox.[44] Deviating from the FAR/DFAR acquisition process was sure to elicit protests from the losing bidders. But even if Carberry could get waivers, the award still was subject to protest to the General Accounting Office (GAO), with a federal court likely to place a temporary hold on the process.

City and Navy officials eventually agreed that they would have to disengage from direct consultations on selection to insulate against conflicts of interest and potential ethics violations. Source selection was going to be the sole and exclusive responsibility of the City, and all of the major players were about to sign a Memorandum of Understanding (MOU) to this effect. But, even so, given the way that the Navy usually did business, it was very unusual that it was not going to be involved in the solicitation, and the Navy's initial insistence that it be detached from the selection jolted everyone – particularly NAWC-ADI.[45] The City was worried because the Navy pledged to be their partner in a venture they knew almost nothing about. But their greatest fear was that the Navy would disregard the source selection decision – in particular, the Mayor's Office was worried that this was "subterfuge," setting the City up for failure and providing the Navy with a convenient way out.[46] This was a matter of trust – one which threatened the entire privatization plan.

Vice Admiral Lockard recalls his meetings with Goldsmith: "We had to go eyeball-to-eyeball" and read each others' body-language to establish – and continually reaffirm – trust.[47] In the end, he successfully assured Mayor Goldsmith that Carberry's idea simply was a way of avoiding conflict both with the Navy and with the bidders.

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[44] Carberry interview, supra.

[45] Ibid.

[46] Ibid.

[47] Lockard interview, supra.

Finally, the City of Indianapolis released the "Sources Sought Solicitation" on December 22, 1995, which contained the solicitation, a detailed overview of NAWC-ADI, the Arthur Andersen feasibility study, and sample draft language for a possible workload contract from NAVAIR.

The evaluation criteria were expressed in a set of thirty-four questions broken down into six categories. The overarching goal was to develop a plan to balance the desired outcomes of each of the stakeholders to have them all come out ahead. Specifically, employees wanted new job opportunities and employment growth; the Navy wanted cost, quality, and performance enhancements; the new business entity would need long-term profitable growth potential; and the City wanted economic development, technology growth, a new tax base, and a long-term commitment from the new business entity. Ultimately, according to both Goldsmith and Gigerich, the "fierce and open competition" really provided the City and the Navy with a number of creative ideas for making the privatization work better.[48]

Evaluating Responses

In mid-January, 110 representatives from 36 companies attended a "Responders Conference," where attendees received a tour of the facility, detailed briefings, and the chance to ask questions – a good response, considering the City was trying to sell a closed business. Employee morale picked up noticeably as the prospective bidders streamed through the NAWC-ADI facility. As of the February 28 deadline, the city had received full bids from the American Competitiveness Institute, Battelle, Hughes Technical Services, SEMCOR, Lockheed Martin, VITRO, and Science Applications International Corporation (SAIC).[49]

The City was now tasked with evaluating the offers to find the best value and making a source selection recommendation. An expert Review Group analyzed the proposals, and invited each of the seven companies back to Indianapolis to provide

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[48] Goldsmith and Gigerich interview, supra.

[49] Wheeler and Walcott, op. cit., p. 32. Four partial responses also were received.

clarifications and answer a common set of questions based on the review of all of the proposals. At the end of these meetings, the Review Group determined that Battelle, Lockheed Martin, Hughes, and SAIC were ready to proceed to the next round of the selection process.[50]

Resolving Open Issues

Because the entire privatization schedule was so compressed, the City and the Navy continued to tackle issues, even during the competition phase. To save even more time, rather than reaching agreement on one issue and seeking final approval before moving to the next issue, multiple negotiations proceeded in parallel. The issues that the City and the Navy had to work through addressed three areas – namely, policy, operations, and statutory compliance.

1) Policy Issues

The Competition in Contracting Act (CICA) made it difficult to award the contract to a single entity with a multiyear authorization and appropriation, which would make the competition attractive. However, in early January 1996, NAVAIR proposed using the "public interest" justification for a one-time exemption from CICA, and ASN Douglass was highly supportive. The exemption was subject to approval by the Secretary of the Navy, and Congress required a thirty-day notification. A draft Determination and Finding (D&F) for the public interest exemption was sent to NAVAIR for review, and within the month, it was on its way to Secretary of the Navy Dalton for his signature. The exemption proved to be extremely important, as the team that eventually won the competition was reluctant even to place a bid without a five-year guarantee. Although the final character of the agreement did not specifically guarantee a five-year windfall, the one-year IDIQ contract with four one-year options was enough enticement.[51]

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[50] Lockheed Martin later withdrew from the competition during the final stage of the selection process.

[51] Carberry interview, supra.

There were concerns about protecting retirement benefits for workers choosing to join the new private entity. Some 600 employees who joined the federal government before 1984 and did not transfer from the old Civil Service Retirement System (CSRS) to the new Federal Employee Retirement System (FERS) lost their pension benefits if they separated from the federal system before they were eligible to do so. At risk were the most experienced workers who had the most to contribute. However, Senator Daniel Coats (R-Indiana) introduced legislation as part of the Defense Authorization Act of 1997 to help retain core technical staff, prevent disruption to key integrated project teams, and do it at fairly low cost to the government. The legislation, which applied only to CSRS employees who accepted work with the private contractor and were otherwise ineligible for federal retirement benefits, offered a voluntary option to index a deferred annuity, as a two-year pilot program. DoD would pay the annual salary increases into CSRS for the indexed annuity, though employees would have to forego their federal severance pay, receive a federal deferred annuity at the retirement age, and allow indexing of the average pay on which the annuity is computed.[52] The employees' union, which became involved in some of the political proceedings, agreed to continue representing the employees even after the privatization was complete.[53]

With these policy issues resolved, Navy officials approved an Acquisition Strategy Plan for the Privatization of NAWC-ADI. The document formally laid out the process to which the City and the Navy had agreed.

2) Operations Issues

On January 24 and 25, 1996, the JPSG conducted a special meeting with Navy financial and contracts representatives, NAWC-ADI customers, as well as City, NAWC-ADI, and NAVAIR personnel. The JPSG assigned various breakout groups to address

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[52] Goldsmith recalls in retrospect that "this was so logical and unsuccessful in part because budget scoring ironically did not [take into account] the huge liability. . . . John Hamre [then-Under Secretary of Defense (Comptroller)] helped with the context [and] was very supportive, but he could not solve the pension impasse" by himself. Goldsmith facsimile, supra.

[53] Goldsmith and Gigerich interview, supra.

as many outstanding issues as possible, bringing them to closure, establishing a plan for their resolution, or finding viable alternatives. In addition to establishing processes and timelines for resolving critical issues, the Navy also initiated a cost-benefit analysis of two closure options, which became part of the final decision-making process on whether to close or to privatize.

3) Statutory Compliance

NAWC-ADI still had to meet normal base closure requirements. Before the government could transfer ownership of the facility to Indianapolis, they were required to cleanup contaminated areas. The BRAC Environmental Planning process started almost immediately after the closure decision was announced. Pollution almost certainly existed in one storage shed and a number of underground tanks. The BRAC Cleanup Team (BCT) also was concerned about the plating shop and the printed wiring board shop. The BCT, along with a group of local and community organizations comprising the Restoration Advisory Board (RAB), and the Reuse Planning Authority (RPA) took an integrated, cooperative approach to avoid conflict and minimize the chance for rejection by the EPA. Potential environmental liability issues – issues that the private company taking over did not create that could cause them operational disruption costs – ultimately would have to be addressed in the interim lease agreement.[54]

Under BRAC rules, local governments have certain rights to reuse vacated facilities. Thus, having the City of Indianapolis lease the facility from the federal government assured that a private company would sustain local business operations over the term of the lease. As such, the City ultimately would lease the facilities and equipment from the Navy, and, in turn, would sub-lease them to the winner of the competition. After ten years – comprised of two five-year options – the title would

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[54] According to Goldsmith, regardless of whether the Navy closed the base or whether the EPA had to conduct a full environmental impact assessment, "either way the environmental issues belonged to the government" because it would have to take a major action. It therefore was in the government's interests to resolve them in a quick and straightforward manner. Goldsmith facsimile, supra.

belong to the City, who would pass it to the private company. The City initiated a process for negotiating an economic development conveyance with the Navy, and Arthur Andersen won the role of the City's support contractor. Their primary responsibility was to prepare a financial valuation and offset cost analysis for the City and the Navy.

And the Award Goes to . . . Hughes Technical Services Company

Although any of the finalists' bids would have been preferable to the Navy's original closure decision, Steve Carberry, who officially had become the leader of the NAVAIR Privatization Team, was excited when Hughes Technical Services Company was awarded the NAWC-ADI contract on May 14, 1996. Hughes offered the best employment opportunities and prospects for job growth. They also promised to keep the technical teams together, reduce costs to perform existing and new work, and minimize disruption costs to the Navy. These factors made Hughes the most appealing in the eyes of the employees.[55] Hughes, who already had demonstrated success with other Indiana sites, offered Indianapolis a strong, positive, long-term growth outlook. Moreover, the acquisition of NAWC-ADI clearly fit within both the firm's and the City's respective strategic visions.

But Hughes only won the right to begin negotiations with the Navy – the close-and-move alternative was still looming in the background. As such, Carberry had to develop an implementation plan that accommodated the needs of Indianapolis, the Navy, and Hughes. For this to work, in just over three months, the Navy needed to sign a workload agreement with Hughes; and in less than eight months, Hughes needed take over NAWC-ADI. Even though the City and the Navy had done much to resolve many of the outstanding issues, a good number still had to be resolved within this compressed timeframe.

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[55] Goldsmith facsimile, supra.

The Alpha Acquisition Process

A Tool for Compressed Negotiations

Carberry had to address the selection of a contract negotiation model. The normal acquisition process was extremely time-consuming, often requiring 12 or more months. Another option, "Alpha Acquisition," involved all of the members of the approval chain in the negotiations *simultaneously*. Thus, once an agreement was negotiated, rapid authorization could be obtained from all of the parties involved. The Alpha process removes a significant amount of duplication from the process, for example, eliminating countless iterations of internal documents.

The Alpha Acquisition requires that the contractor and the government:

- Get a commitment from all of the Integrated Product Team members;
- Dedicate resources;
- Take ownership of the process;
- Be willing to change existing processes and procedures; and,
- Share a common purpose, vision, and desired results with honest and trust.

Taken from Michael White. "Contracting Overview." Acquisition Reform Week.

Although Alpha Acquisition promised to speed up negotiations, it was a new model still under development at NAVAIR. Yet, with so little time and so much to do, the City, the Navy, and Hughes had to risk trying the Alpha approach. Even Naval Facilities Command felt the time crunch and agreed to a compressed interim lease negotiating process, similar to the Alpha Acquisition approach.

Negotiating the Contract

Hughes had difficulty coming up with an accounting system, which was a prerequisite for determining the contract type – the accounting system in place at NAWC-ADI simply was not suitable for a private company.[56] Carberry suggested that

[56] Carberry interview, supra.

the Defense Contract Audit Agency (DCAA) develop an accounting system for Hughes. This was an interesting approach, as the contractor usually develops a system and submits it for DCAA approval, but Carberry sold his novel approach and overcame this potential show-stopper.

Additionally, a refined copy of the business case data came in for review, and the results were surprising – the cost of privatization-in-place and close-and-move were incredibly close. Although privatization was the still the best value, a small increase in the labor rates could easily shift the balance in favor of the close-and-move option.[57]

Carberry had to do something to make the privatization plan more appealing, or his supporters easily could jump ship. To remove the ambiguity and turn the tide fully in favor of privatization, he decided that he would have to change the structure of the contract from cost-plus to a firm fixed-price – effectively fixing the labor rates and requiring Hughes to commit to the as-yet unverified rate structure for the next five years.[58] It seemed like Hughes was being set-up: a government agency was taking away a "cost-plus" contract and replacing it with a fixed-cost contract. How could they possibly agree to such a deal?

The answer: Carberry and his Hughes counterparts had built their relationship on trust. On Carberry's direction, Hughes officials peeked at some of the business case numbers, and they realized that he was right. Mayor Goldsmith especially was impressed with Hughes' excellent team leadership.[59] Thus, after successfully navigating the cost-benefit issue that could have sunk the whole privatization effort, the type of contract negotiation was concluded within only three or four days.[60]

Carberry was close to ensuring for the City, NAWC-ADI, and the Navy a win/win/win outcome.

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[57] Ibid.

[58] Ibid.

[59] Goldsmith facsimile, supra.

[60] Carberry interview, supra.

Downsizing the Navy: Privatization of the Naval Air Warfare Center Aircraft Division, Indianapolis

Part III

Epilogue

The Win/Win/Win Outcome

Within one week of Hughes' selection, the Navy announced its intention to privatize the NAWC-ADI facility. The Navy and Hughes signed a one-year IDIQ contract with an additional four one-year options on September 25, 1996. At the same time, the Navy and the City signed an interim lease agreement, and the City and Hughes signed a sublease. The workload contract provided NAWC-ADI's customers with a seamless transition, enabled the new facility to gear-up for competition for Navy business in five years, and allowed the entire government – not just the Navy – to place orders with the new NAWC-ADI. Although difficult project-by-project negotiations were required to convert Navy Air Tasks into IDIQ task orders – as required by Federal Acquisition Regulation/Defense Federal Acquisition Regulation (FAR/DFAR) standards – Hughes took over operations on January 5, 1997, with most on-site Navy employees becoming Hughes employees. NAWC-ADI became Hughes Air Warfare Center (HAWC).[61]

The City essentially swapped former NAWC-ADI land, equipment, and employees for employment guarantees and a local investment in human capital. Indeed, Hughes pledged to bring in over 700 new technical jobs from elsewhere in the

[61] James P. Valley. "A Comparison of the Contracts Involving the Privatization of Newark AFB and the Naval Air Warfare Center-Indianapolis (AFIT/GCM/LAL/97S-14)." Air Force Institute of Technology: Thesis, 1997, p. 29.

company and to provide training for existing NAWC-ADI employees.[62] Further, Hughes claimed it would increase the number of people employed at the former NAWC-ADI to 3,000 by 2002,[63] and pay the City $3 million a year in property taxes.[64] The actual Navy workload guarantee was set at one-half of the *projected* workload for the facility. In exchange, Hughes pledged to reduce total contract labor costs by 15 percent over the five-year contract period.[65]

Raytheon Takes Over for Hughes

In December 1997, Raytheon Corporation merged with Hughes Aircraft Company and took control of the Indianapolis operation. The federal government has not been able to measure the effects of the Indianapolis privatization-in-place under either Hughes or Raytheon because of a lack of baseline data from the original NAWC-ADI operation, and the changing and mixing of workloads. However, both Hughes and Raytheon did institute a number of business improvements that appear to be increasing efficiencies and reducing costs to the government; and, military customers have been satisfied with the quality and timeliness of the products.[66]

The Indianapolis operation really began to feel declining workloads by 1999. Raytheon attempted to counter by bringing in new Defense-related work from other sites and reengineering processes to mitigate the negative effects. Although Raytheon had difficulty attracting new customers and was uncertain about future workloads, the company remained optimistic about its efforts. Despite these efforts, though, the Indianapolis workload dropped by 30 percent only three years after the privatization.[67]

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[62] Carla E. Tighe, et. al. "A Privatization Primer: Issues and Evidence (CRM 96-123)." Alexandria, VA: Center for Naval Analysis, 1997, pp. 37-38.

[63] Ibid.

[64] "From boots to electronics: shutting military bases," op. cit.

[65] Tighe, op. cit., pp. 37-38.

[66] David R. Warren. "Military Base Closures: Lack of Data Inhibits Cost-Effectiveness Analysis of Privatization-in-Place Initiatives." GAO/NSIAD-00/23, December 1999, p. 7.

[67] Ibid, pp. 8-9.

And, although Hughes promised over 700 new jobs, in mid-1998, Raytheon cut the workforce by 17 percent for a loss of 330 employees. Carberry recalls in retrospect that "Hughes was the only one that understood that this was not a procurement, it was an acquisition and a merger . . ., and when Raytheon took over, they didn't understand that."[68] Goldsmith emphasizes that Hughes provided a "great start," but there was "slippage with Raytheon."[69]

It was not all bad news, though – at least not for Indianapolis. Raytheon transferred its entire Long Beach, California depot-level repairs and spares manufacturing to Indianapolis. The consolidation equated to moving 120,000 square feet from Long Beach to Indianapolis. Raytheon also brought additional work to Indianapolis through foreign government sales, such as armored tank modifications for Portugal, for a total of $31 million in sales.[70]

Even though the overall cost-effectiveness of the privatization-in-place operation for NAWC-ADI could not be determined, there are signs that indicate that the Navy realized some savings – at least in the short-term. A City-imposed covenant required that Raytheon charge the Navy at labor hour rates that were 15 percent lower than Navy rates at the time. However, these rates were subject to renegotiation in 2002, coinciding with the end of the five-year contract.

Even though the Navy promised only 50 percent of the total workload, the Navy business that existed before the privatization accounts for about 65 percent of the total business done in Indianapolis.

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[68] Carberry interview, supra.

[69] Goldsmith facsimile, supra.

[70] Warren, op. cit., p. 9.

Does the BRAC Process Save the Government Money?

As noted above, the 1993 closure of Fort Harrison cost the government $206 million, and the estimated savings between 1992 and 1997 were only $123.8 million – a non-trivial shortfall of $82.2 million over five years. Clearly, in some cases, the payback period exceeds five years. Nonetheless, the long-term savings are both real and significant. A March 2004 DoD report observed that through FY2001, DoD had achieved an aggregate net savings of $17 billion, with recurring annual savings of $7 billion – these savings were realized, despite the fact that implementation costs, especially environmental cleanup costs, are often quite high.[71]

Apart from these long-term savings, what was the impact on employment? DoD estimated that the 1993 closings would increase unemployment by an average of 5.6 percentage points in the 34 affected communities.[72] However, this estimate did not take into account the reuse of valuable resources behind by the base closures – DoD's Office of Economic Adjustment estimated that between 1961 and 1997, in some cases, for every one DoD job lost, almost two civilian jobs were created,[73] as former facilities have been used for transportation needs, education centers, commercial and industrial centers, new neighborhood complexes, community support services, and recreation and conservation sites.[74] Although there is a lag between government closure and private sector takeover, the time needed to complete the transfers has fallen from 57 months in 1988 to 21 months in 1995.[75]

On the whole, the BRAC process still has opportunities to excise excess infrastructure while retaining savings and operational capacity for DoD. The current

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[71] Department of Defense. "Report Required by Section 2912 of the Defense Base Closure and Realignment Act of 1990, as amended through the National Defense Authorization Act for Fiscal Year 2003." March 2004, p. 55.

[72] "From boots to electronics: shutting military bases," op. cit.

[73] Ibid.

[74] March 2004 DoD report, op. cit., pp. 58-61.

[75] "From boots to electronics: shutting military bases," op. cit.

DoD estimated excess capacity is 24 percent above the 1989 baseline. Table 4 shows the excess capacity by service branch and for the Defense Logistics Agency (DLA).[76] Another BRAC round is scheduled for 2005. Difficulties arise, in part, because the BRAC process relies on a static picture, or, as Mayor Goldsmith put it, "a snapshot of what is going on today."[77] It likewise is difficult to forecast activities that are five years away, especially as the threats to the national security continue to evolve and as government continues its transformation. It is difficult to close bases because of political resistance – every base is in someone's Congressional District. If Goldsmith had it his way, the BRAC process would be "leveraged for competitive restructuring and thinning," and, of course, it would function "more permeably across sectoral lines."[78] He found a way to make this happen – and a way to benefit the City, NAWC-ADI employees, and the Navy.

Table 4. Estimated Percentage of Excess Capacity in DoD

Department	Estimated Excess Capacity (above 1989 baseline)
Army	29%
Navy	21%
Air Force	24%
DLA	17%
Total DoD	**24%**

[76] March 2004 DoD report, op. cit., p. 54.

[77] Goldsmith and Gigerich intervi ew, supra.

[78] Goldsmith facsimile, supra.

Appendix A

NAWCADI Privatization/Critical Issues

- Contracting/Programmatic
- Budget and Finance
- Environmental
- Human Resources
- Private Side Construct
- Other

Ownership Structure

- Employee owned
- Publicly traded SEC company
- Joint venture between ESOP and large defense/other government contractor
- Employee owned and management contract with large defense/other government contractor

Contracting Approach

- Sole source through 3 to 5 years, then free and open competition
- Initial free and open competition
- Long-term sole source beyond 5 years

Smart-Buyer Considerations

- Navy need to retain smart buyers
- Retention of Navy employees critical to continuance of NAVAIR workload
- Customer support additionally affected by retention of Navy employees
- Need to consider who will remain key engineering Navy employees and balance Navy employees with private side engineering force

Contracting/Programmatic Issues

- Specific business plan for implementation of privatization concepts

- Identify cost and benefits of privatized divisions, personnel and facilities
- Identify costs and risks of privatization to customers
- Understand GFE/GFM process
- Private entity rights vs. Government rights to assets and facilities
- Reversion clauses for special government facilities and equipment
- Transition of workload
- Prepare timeline for transition of workload, equipment, facilities, how the transitions will occur and what functions will be transferred
- Determine vehicles for interim use and early turnover of the facilities
- Determine approach to privatization
- Full privatization vs. division of private and public company workload
- Identify those functions, processes, products that are Navy-inherent and cannot be transferred
- Develop models of privatization to determine organizational structure and how products get delivered
- Consider FAR/DFARs and how they affect privatization

Budgeting and Fiscal Issues

- Can commercial work begin prior to privatization?
- Need to consider interim-use agreement for commercial work
- Commercial work revenues may offset costs of transition to private company
- What is the fair market value of assets and facilities?
- Government should grant economic development conveyance to privatized company
- Budget for NAVCOMP
- How does it affect operations and transition to private company?
- What is the budget for a new contracting requirement for privatization?

Environmental

- Perform an environmental assessment or environmental impact study
- What is cost?

- What is timing?
- How does either affect privatization or ability to perform commercial work
- Determine if NAVFAC needs to be involved City of Indianapolis can indemnify Navy upon transfer of facilities or equipment
- What are Pryor amendments for environmental requirements and how do they apply to this privatization?
- Need to prepare official reuse plan

Human Resources

- NAVSEA issues
- Pension mobility
- Retention of skill base – smart buyers for Navy vs. core engineering force for private company
- Stable and strong workload continuance affects retention of skill-base
- Contracting vehicle critical to retention of skill base
- Identify legal precedent and authority to retain government personnel in closed facility (Navy presence, detachment, and other)

Other

- Navy guidance on major labs
- EP-3, V-22 labs to stay or move?
- Short-term success of privatization plan will rely on private company to retain these labs
- Can there be a privatization of these labs and workload continuance for 1 to 2 years on these projects?
- What is fall back position – give up V-22 and retain EP-3 or vice versa
- Speed of privatization critical to success. Delays or long time horizon implementation unacceptable
- What are the roles and responsibilities of the various individuals in the private company vs. Navy?
- Decision authorities

- Integrated project team structures
- Development of evaluation criteria for options/models
- Develop list of transition issue
- Is there initial funding for the private company and where does it come from?
- Determine effect of Reinvention Lab status (NAVAIR and NAWC-Indy) on privatization
- Reinvention Lab status offers selective waiver opportunities to achieve specific goals
- All privatization models cost less than close and move
- Goal of Privatization is to save Navy money and improve efficiency of contract process.
- Consider local, regional, and national political implications

Appendix B

Detailed Cost Estimate of Relocation and Privatization Options

Table 5. Relocation Plan Cost Estimate (TY $M)[79]

	TY97	TY98	TY99	TY00	TY01	Total
Total Cost	329.6	320.1	327.3	330.5	277.8	1,585.3
Labor	211.3	196.1	167.8	142.8	141.1	859.0
Material	84.9	86.3	81.6	99.0	106.1	457.9
Facilities	12.0	15.4	18.7	11.7	-	57.8
Environment	6.1	5.2	11.4	15.0	15.1	52.8
Personnel	13.6	14.8	36.9	42.9	14.0	122.3
Other	1.7	2.3	10.9	19.1	1.6	35.5

Table 6. Privatization Plan Cost Estimate (TY $M)[80]

	TY97	TY98	TY99	TY00	TY01	Total
Total Cost	339.3	282.7	241.6	254.1	266.6	1,384.2
Labor	191.2	180.7	161.9	170.7	176.4	881.0
Material	79.5	71.0	65.7	69.4	72.1	357.7
Facilities	0.4	-	-	-	-	0.4
Environment	9.5	5.3	11.1	11.1	15.1	52.0
Personnel	55.9	23.3	1.0	1.0	1.1	82.3
Other	2.8	2.3	1.8	1.9	1.9	10.6

[79] Gregory A Hogan. "Evaluation of Military Base Closure Alternatives." Virginia: February 1997. p. 46.

[80] Ibid, p. 47.

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