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Monsters in the Closet:' The Unanticipated and Uncontrollable Impact of Collective Bargaining Agreements in A-76 Sourcing Decisions



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**Monsters in the Closet? The Impact of Collective Bargaining
Agreements in A-76 Sourcing Decisions**

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by

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Monsters in the Closet? The Impact of Collective Bargaining Agreements in A-76 Sourcing Decisions

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Abstract

Federal Government agencies convert in-house positions to contractor positions via the A-76 process in order to save money. During an A-76 conversion, stable future labor cost growth is assumed. This assumption is faulty in cases wherein the contractor workforce subsequently unionizes. Unionization may lead to unanticipated increases in cost, threatening the savings projected during the A-76 process. This study seeks to: 1) compare the rate of labor-cost growth for military, civilian, and contract employees and 2) compare current labor costs for a sample outsourced activity (fuels) to labor costs for the military requirement based on manpower standards. The study finds that overall, annual collective bargaining agreement (CBA) wages increases were typically 1-2% higher than *Service Contract Act (SCA)* wages increases. However, we found no evidence that contractors performed functions in our sample functional area at a higher cost than in-house. The actual cost of contractors averaged ~40% less than the cost derived from the military manpower standard. The actual in-house cost averaged over 20% higher than the cost derived from the manpower standard. Our results indicate that for the fuels functional area, A-76 actions remain economically advantageous to the government, despite increases in contract labor cost.

Introduction

In 1966, the US Government began using the A-76 process to evaluate governmental activities as candidates for outsourcing (OMB, 1983, August 4). The A-76 process provides a roadmap for government to convert work from internal (military in our study) performance to either contractor support or a redefined in-house performance organization. The intent of the A-76 process is to save money while freeing military personnel to perform inherently governmental functions. The A-76 process requires the use of estimates of future cost growth when evaluating cost not just in the current year, but in the out-years as well. These estimates are based on assumptions of stable future cost growth.

Several potential frustrations may develop for commanders in the post-A76 environment. These frustrations include a perceived loss of flexibility in mission support when moving from military to contractor support. Further, there may be frustration with “must pay” contract cost increases stemming from an increase in union-negotiated collective bargaining agreements (CBAs) and the perception that contractors have no incentive to control CBA cost growth because the increase is passed on to the government agency as a 100% pass-through.

The impact of increasing labor costs for service contracts is felt Air Force-wide. Activities are competitively sourced for various reasons, but cost savings are a primary



driver. When the cost of the contracted services expands beyond expectations, then only two options exist for the government: reduce the level of service or take funding away from other requirements. Both of these actions have a negative impact on day-to-day operations.

Loss of flexibility coupled with ever-increasing contract cost has caused some commanders to ask whether or not the A-76 evaluation process adequately considers future labor cost growth in the decision to outsource.

Wage Rate History

Wage rates in contracted-out functions are controlled by the *Service Contract Act* (SCA). The SCA's purpose is to protect the wages and benefits of service contract employees. 41USC351 provides required provisions for public contracts in excess of \$2500. The Secretary of Labor creates wage determinations to establish minimum wages for various categories of workers in a location. 41USC351(a) requires the contractor to provide wages and fringe benefits at least equal to the amounts established in the Department of Labor wage determination.

The *Fair Labor Standards Act* and *Service Contract Act*, "Price Adjustment (Multiple Year and Option Contracts)" clause incorporates this law into government contracts (*FAR*, 2007, 52.222-43). It applies to both contracts covered under the SCA as well as those under which the workforce is unionized, and it operates under a CBA. The contractor's employees are protected by these Acts as their pay and fringe benefits cannot fall below the wage determination of the Department of Labor. The contractor is protected by these acts because the increases in pay and fringe benefits are pass-through costs to the government. Thus, the contractor is not subject to financial ruin due to increasing labor/fringe benefit rates. The government takes on the financial burden of these increases to, in effect, protect the contractor's employees (Lear Siegler Services). This creates a financial obligation to the contracting entity which that entity has little input or control over. In SCA actions, the increases reflect the rise in wages in the local area per the wage determination, and are, therefore, seen as somewhat predictable. CBA negotiations between the contractor and the employees' union are not bound to such limitations, and are seen as less predictable.

Two additional *Federal Acquisition Regulation (FAR)* citations are very relevant. *FAR* 22.1008-2 (b) mandates that wage determinations and CBAs carry over even if there is a change in contractor due to the contract being reawarded. The intent here is clear: because the competing bidders are bound to the same labor rates as the incumbent, they cannot develop a bid advantage solely by discounting employees' wages. The effect of this, however, may be to reduce the incentive of the incumbent to drive a hard bargain in negotiations with the union. For one, they do not actually pay the increases, and secondly, their competition gains no advantage from the negotiated increases.

Finally, *FAR* 22.1002-3 and *FAR* 22.1021 do provide avenues for the government to ensure that the negotiations between the contractor and union are legitimate. *FAR* 22.1021 allows the contracting officer to request a hearing with the Department of Labor (DoL) to determine if the negotiated CBA rates are reasonable. The CBA will not be applied if:

The Secretary of Labor determines—(1) after a hearing, that the wage and fringe benefits are substantially at variance with those which prevail for



services of a similar character in the locality, or (2) that the wages and fringe benefits are not the result of arm's length negotiations. (*FAR*, 2007, 22.1002-3 (a) (1) (2))

The question of how much the wage and fringe benefit rates of collective bargaining agreements vary from the *SCA* rates raised by this *FAR* reference is at the heart of this research.

Three previous studies have addressed labor-cost growth issues and were referenced in this study. The first was conducted by the Center for Naval Analyses in 2001, entitled, "Long-run Costs and Performance Effects of Competitive Sourcing" (Rosenblum, Coast & Smallwood, 2001). The second study entitled, "Personnel Savings in Competitively Sourced DoD Activities: Are they Real? Will They Last?" was conducted by RAND in 2000 (Gates & Robbert). The third study referenced was conducted by Dr. Roger Golden and published in his dissertation entitled, "Cost Trends on Defense Commissary Service Contracts" (1999).

When the government converts work to contractor performance through the A-76 process, stable future labor cost growth is assumed. This assumption is faulty in cases wherein the contractor workforce unionizes. In addition, the assumption may lead to unanticipated increases in cost, which could invalidate savings projected during the A-76 process. Establishing a better method to compare future labor cost will ensure the more cost-effective organization, over the long term, performs the service.

The ultimate aim of this research stream is to develop an additional cost growth factor to consider in the A-76 process. This study focuses on answering two fundamental questions necessary to develop such a factor: Do CBAs lead to faster wage growth? Do CBAs end up costing the government more than military performance of the function?

Objectives

1. Compare cost growth in labor rates of military, civilian, *Service Contract Act*, and collective bargaining agreement employees.
2. Compare current labor costs for an A-76-affected activity to labor costs for the military requirement based on manpower standards.

The Sample: Air Education and Training Command (AETC)

The Air Force Air Education and Training Command (AETC) administers many contracts with industry for commercial functions. AETC has conducted A-76 competitive sourcing studies over a long period of time, with many being completed in the 1980's and 1990's.

The current challenge to AETC is that the government is required to pay the contractor for wage increases, whether they originate from a revised wage determination under the *Service Contract Act* (*SCA*) or a renegotiation of a collective bargaining agreement (*CBA*). While the *SCA* is considered a fairly stable and predictable cost growth, the *CBA* growth is viewed as less predictable. For an organization with a defined budget, being required to fund unpredictable labor cost requirements can have negative impacts.



AETC's mission has led to frequent use of the A-76 process to competitively source commercial activities. Based on these factors, the study team selected AETC bases as the sample for this study.

Methodology

Assumptions

1. Direct comparison of base pay rates between military, civilian, SCA, and CBA employees is acceptable as a method of comparing labor cost growth. Because the composite factors for military pay contain costs not obtainable for civilian, SCA and CBA rates, the base pay rate is the most accurate measure for comparison between the contracted and in-house pay growth.
2. Time is not a factor in calculating labor cost growth rates as the comparison between rates covers the same time periods and, therefore, the time/inflation costs are the same.
3. SCA base pay rates plus health and welfare (H&W) costs are directly comparable to CBA base pay rates plus H&W costs. This assumption is necessary to allow for direct comparison of the two rates, although they may not always mean exactly the same thing for each CBA.
4. Overhead costs for Civilian, SCA and CBA positions are assumed to be relatively consistent, allowing comparison of wage increases without incorporating applicable overhead costs. This assumption is needed to conduct timely analysis.
5. The manpower standard for Fuels can be used as an independent comparison factor for the fuels function. The standard is not being used as a manpower adjustment tool as it is designed.

Objective 1: Cost Growth of Labor Rates

The first objective is to compare the labor cost growth in the various types of pay structures: military, civilian, contractor under SCA, and contractor under CBA. The purpose of this comparison was to determine if CBA wages increased at a higher rate than SCA wages and to compare that wage growth to military and civilian wage growth. The development of this comparison involved several steps.

The analysis was conducted by location because the pay scales and wage increases for SCA, and CBA employees varied by location. The first step was to identify AETC bases that had multiple CBAs. This is important because while the other three pay types are widespread, there are a limited number of CBAs. Some installations had just one CBA. Requiring a location to have multiple CBAs in order to be included is a precaution to prevent one aberrant CBA from skewing the location's comparison. After that, the pay increases were calculated for each position and compared. The wages were also combined to analyze the wage growth for each type of pay over all of AETC.

The analysis of wage increases was conducted on base-pay rates and composite-pay rates. For base-pay rates, there are no fringe benefits (e.g., health and welfare costs) or overhead (e.g., FICA, SUDA, FUDA, etc.) costs included in the wages. For military



wages, the base-pay rates did not include BAH, BAS, or any other fringe costs. For composite-pay rates, fringe benefits are included for all pay types, but the overhead costs are only included in the military pay rates. The overhead costs would be the same for SCA and CBA-determined wages because the contractor employing each position would not change.

Objective 2: Contractor vs. Military Cost Growth

The second objective was to compare actual contractor costs and actual military/civilian costs for a specific function to the manpower standard cost for that function. Although manpower standards are not recommended for A-76 competitions or reverse A-76 actions, this study used the manpower standard to contrast how in-house and contractor functions related to the standard. The manpower standard was used because manpower data was usually unavailable, outside of a limited timeframe, after the completion of an A-76 competition. The end result of this objective is a comparison of the actual costs of the function performed by military, civilian, and CBA employees to a calculated cost using the manpower standard.

The first step was to identify a function that, within AETC, is performed in-house at some locations while contracted out at others under collective bargaining agreements. The function had to have a relatively stable workload that could be easily quantified. The fuels function at AETC bases met these requirements, and as such was selected as a representative function for this study.

The next step was to calculate the manpower standards based on the Fuels Management Manpower Standard outlined in AFMS 41DA. The resulting manpower standards for each base were then converted to positions as described in AFMS 41DA. These positions were next converted to total cost. After that, the actual costs of the fuel functions at each base were compared with their respective manpower standard costs. For in-house costs, the assigned personnel numbers obtained from the AFPC Authorized and Assigned database were matched to position-costs to compute the actual costs of the in-house organization. For contracted-out costs, the actual contract costs were used.

Finally, the cost ratios of actual cost to projected costs using the manpower standard were calculated. These results were presented numerically and graphically.

Analysis

Objective 1: Cost Growth of Labor Rates

Of the AETC bases, seven bases provided data on three or more collective bargaining agreements: Columbus, Keesler, Lackland, Laughlin, Randolph, Sheppard, and Tyndall. Personnel at these locations provided the actual wage tables from the CBAs. Military base-pay and composite-pay tables were obtained through the Office of the Under Secretary of Defense (Comptroller) website (Office of the Under Secretary of Defense, 2007). The civilian pay was comprised of Non-appropriated Funds (NAF) pay tables, Appropriated Funds (AF) pay tables and General Schedule (GS) pay tables. These civilian base-pay tables were obtained from the Department of Defense (DoD) Civilian Personnel Management Service Website, and the fringe rates were obtained from the Office of Management and Budget (OMB) transmittal M-07-02 (Civilian Personnel Management, 2007). The SCA pay tables and fringe rates were obtained from the DoL– SCA Wage Determinations website (Wage, 2007).



Next, all the base and composite pay tables were aggregated by year and the pay increases for individual positions or grades were calculated. The mean increase for each position or grade was computed to form an overall rate of increase for each year. This process was repeated for the civilian, SCA and CBA pay at the seven different bases and the results were tabulated and graphed.¹

Analysis of the four pay types occurred in three phases. First, the average pay increases, by position, for each pay type were analyzed by year. This analysis was not conclusive because pay types such as SCA didn't get pay raises every year. Often, the SCA pay increases occurred every two years in large increments. Thus, the graphs resulting from this phase of analysis were not static and did not reveal any significant trends.

The next phase of the analysis was to calculate the cumulative wage increases for each pay type. This was done by compounding each pay increase by that of previous years to reveal the overall growth over time for each position. A challenge was encountered in this phase of the analysis: not all bases had CBA wage history from FY99 to FY06. Thus, the cumulative wages for these bases did not start until the CBA history began, which created a lag in the graphs.

The final phase of the analysis was to adjust the CBA wage increases for years without CBA wage history. To better represent the CBA wage increases, the CBAs were assumed to follow SCA wage increases for the years that the CBAs were not in effect. This was a safe assumption because contracted employees would have followed SCA wage rates before unionization. Also, Tyndall AFB did not have any SCA or CBA wage history available for FY00 or FY01. To account for this, SCA and CBA wage increases were each conservatively assumed to be 3.0% for both years.

The results for all seven bases were combined and are shown in Figures 1 and 2. The Bureau of Labor Statistics (BLS) line on each graph represents the DoL-reported wage inflation rate, nation-wide, for each year.

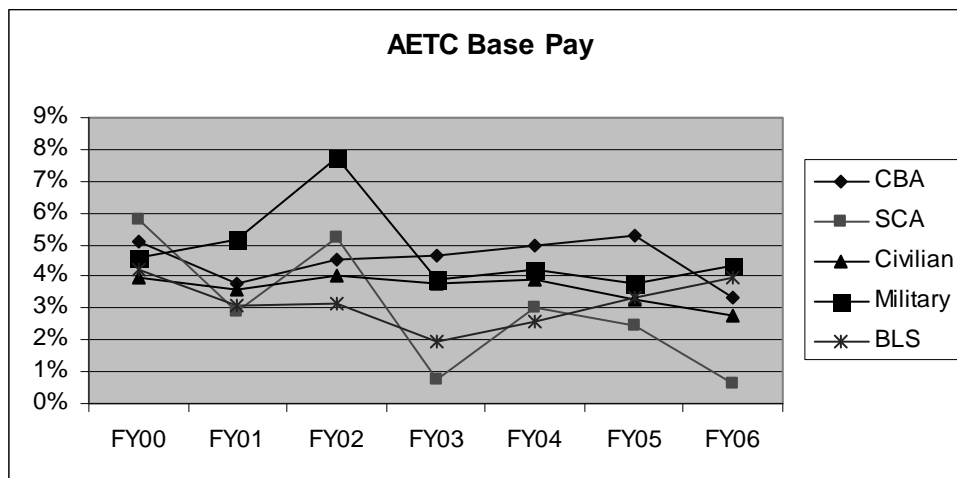


Figure 1. AETC Base-pay Increases by Year

¹ Individual results for each base are available from the authors.

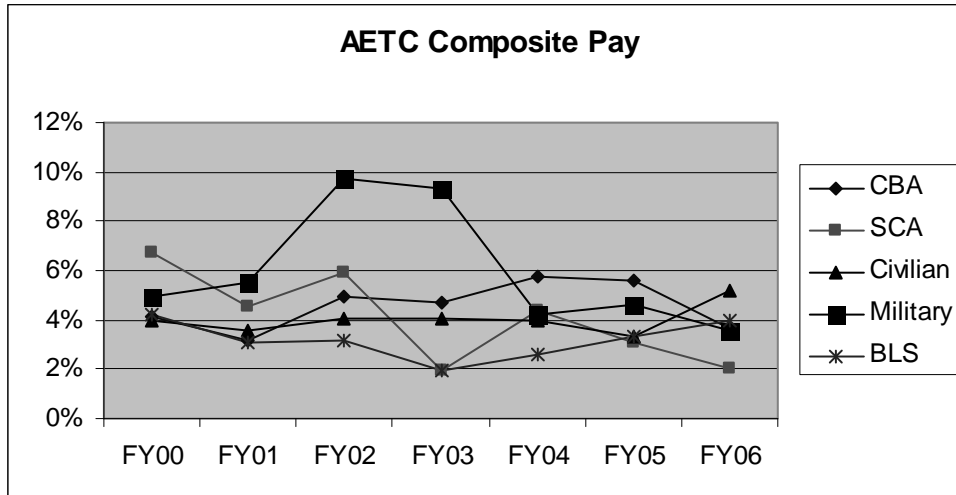


Figure 2. AETC Composite-pay Increases by Year

The next step was to look at the cumulative pay increases over time. To do this, the rate of increase for every year is compounded by the rates of increase for the previous years. This step assists in showing the total increase over time for each category of employee. The results of this analysis are shown in Figures 3 and 4.²

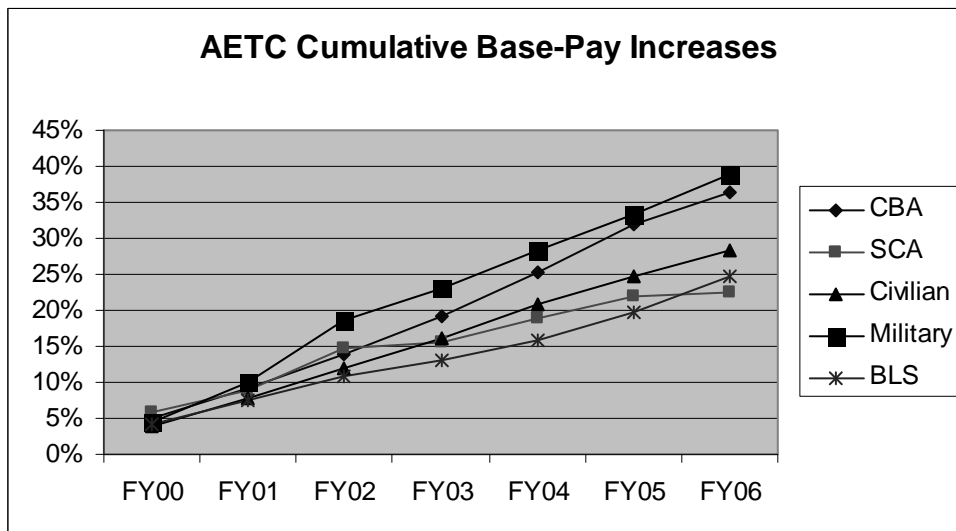


Figure 3. AETC Cumulative Base-pay Increases

² Individual results for each base are available from the authors.

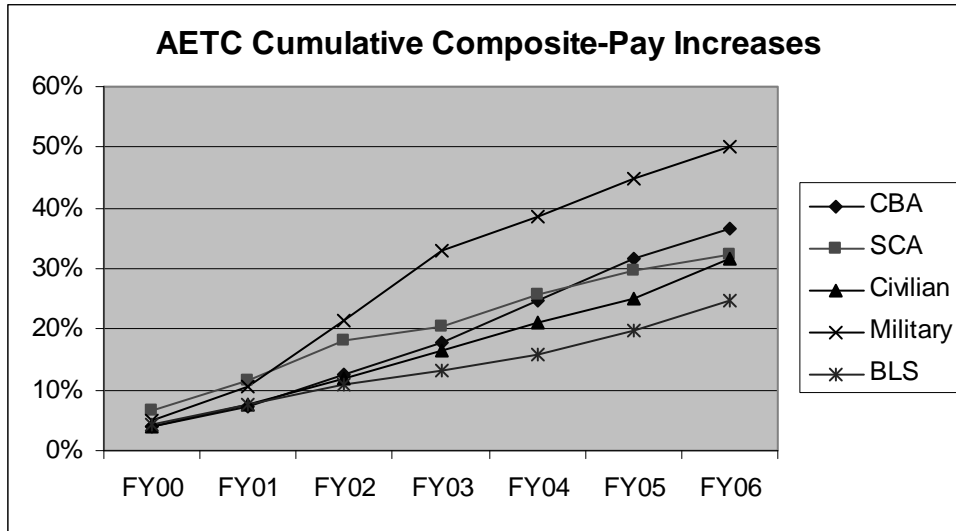


Figure 4. AETC Cumulative Composite-pay Increases

One challenge existed in this cumulative-pay analysis; some bases did not have any CBAs for FY00, FY01 or FY02. To better represent the CBA wage increases, the CBAs are assumed to follow SCA wage increases for the years that the CBAs were not in effect. This is a safe assumption because contracted employees would have followed SCA wage rates before unionization. Also, as mentioned previously, Tyndall AFB did not have any SCA or CBA wage history available for FY00 or FY01. To account for this, SCA and CBA wage increases are each conservatively assumed to be 3.0% (lower than the BLS) for both years. The results of these adjustments are shown in Figures 5 and 6.

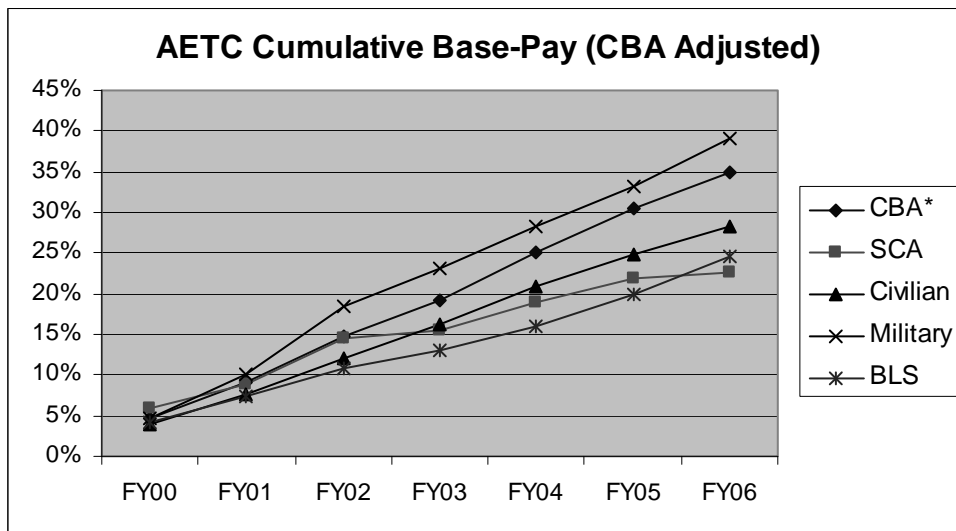


Figure 5. AETC Cumulative Base-pay Increases (CBA Adjusted)

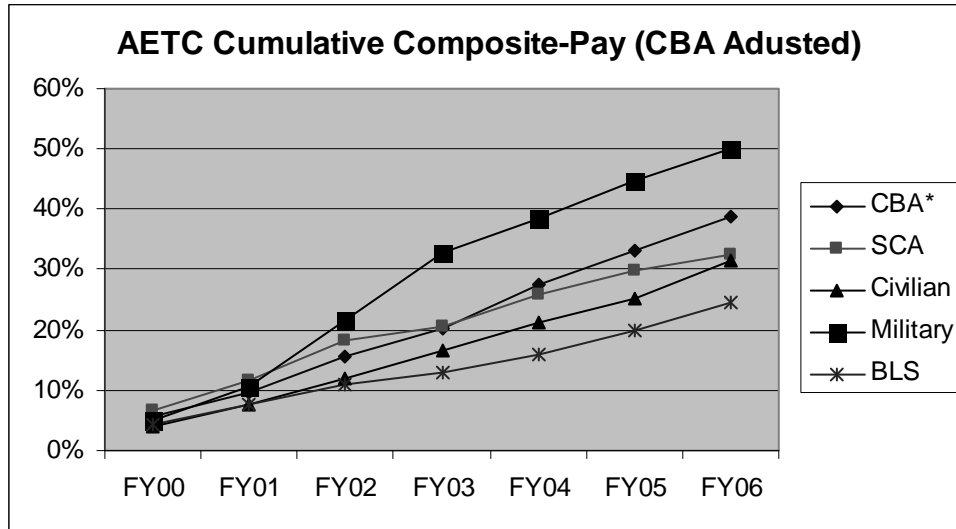


Figure 6. AETC Cumulative Composite-pay Increases (CBA Adjusted)

Figures 5 and 6 show that CBAs have increased at a slightly higher rate than the SCA wages, and the military pay rates have increased at a higher rate than any of the other pay types. Table 1 shows the cumulative base- and composite-pay increases from FY99 to FY06.

Pay Type	Cumulative Base-pay Increases	Cumulative Composite-pay Increases
Military	38.98%	50.03%
CBA	34.99%	38.87%
Civilian	28.21%	31.65%
SCA	22.63%	32.35%
BLS	24.60%	24.60%

Table 1. AETC Cumulative Pay Increases from FY99 to FY06

Objective 2: Contractor vs. Military Cost Growth

Seven AETC bases have contracted out for their fuels support (Columbus, Laughlin, Maxwell, Randolph, Sheppard, Tyndall, and Vance). All of these workforces operate under collective bargaining agreements. However, two of these bases (Maxwell and Tyndall) operate under BOS (Base Operations Support) contracts that combine many functional areas under one contract line-item. This made the fuels costs at these two bases difficult to clearly identify. As a result, Maxwell and Tyndall AFBs were eliminated from the study. Six

AETC bases perform the function in-house with military and/or civilian personnel (Altus, Goodfellow, Keesler, Lackland, Little Rock, and Luke).

The manpower standard for the fuel function is not an accurate predictor of the number of personnel required for smaller workloads because it starts with ~27 positions as a baseline regardless of the workload. Thus, because Goodfellow AFB handles considerably less fuel than the other AETC bases (which skews the data), it was excluded from the analysis.³ The remaining pool for analysis consisted of five in-house bases and five collective bargaining agreement bases. With the assistance of the Manpower flight at Maxwell AFB and the fuels functional chief at AETC, the standard manpower costs for each of these ten organizations were calculated using the composite-pay figures for military and civilian personnel. The results are in Figure 7.

Figure 7 indicates that the Fuels function is varied at the eight bases examined. From Altus, with an annual calculated manpower standard cost of nearly \$5 million dollars, to Keesler, with an annual calculated manpower standard cost of just over \$2 million, the workload is wide-ranging at AETC locations.

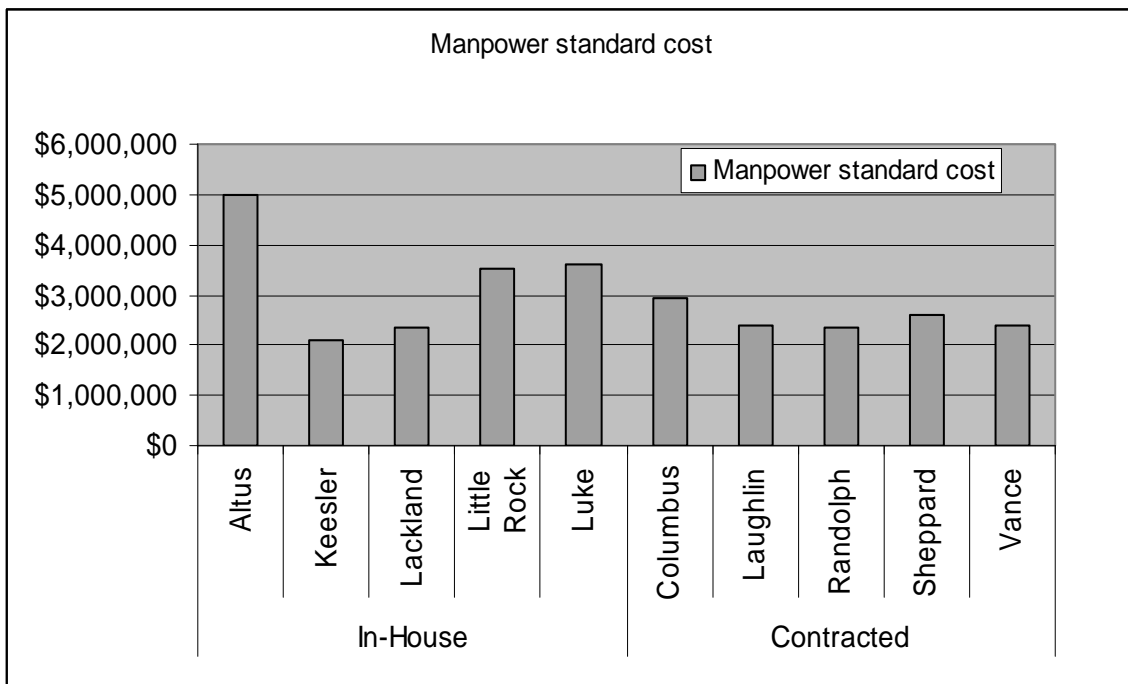


Figure 7. Manpower Standard Cost

The fuels function at ten AETC bases was analyzed by comparing actual FY06 costs to their respective manpower standard-derived costs. Five of the bases analyzed had contracted fuel organizations, and the other five had in-house fuel organizations. In the first step, manpower standards were calculated using the Fuels Management Manpower Standard outlined in AFMS 41DA. The resulting manpower standards were then converted

³ At Goodfellow, all fuels functions are performed by one person, a GS-7.

to positions as described in AFMS 41DA, and the positions were next converted to total cost.

Next, the actual cost of each organization was compared to the calculated manpower standard cost. For contracted organizations, the actual FY06 contract costs were used in the comparison. For in-house organizations, the assigned personnel numbers obtained from the AFPC Authorized and Assigned database were used to compute the total personnel costs.

Finally, the cost ratios of actual cost and manpower standard-calculated costs were calculated, revealing that contractor costs remain economically advantageous to the Air Force.

The next step in the calculation was to calculate the actual cost of manpower at those locations that are manned by in-house personnel. With assistance from AETC fuels personnel and the Air Force Personnel Center's Assigned/Authorized data source, the actual cost for labor for FY06 was calculated for each of the five bases. Again, the composite pay rates are used in this calculation. The results are in Figure 8.

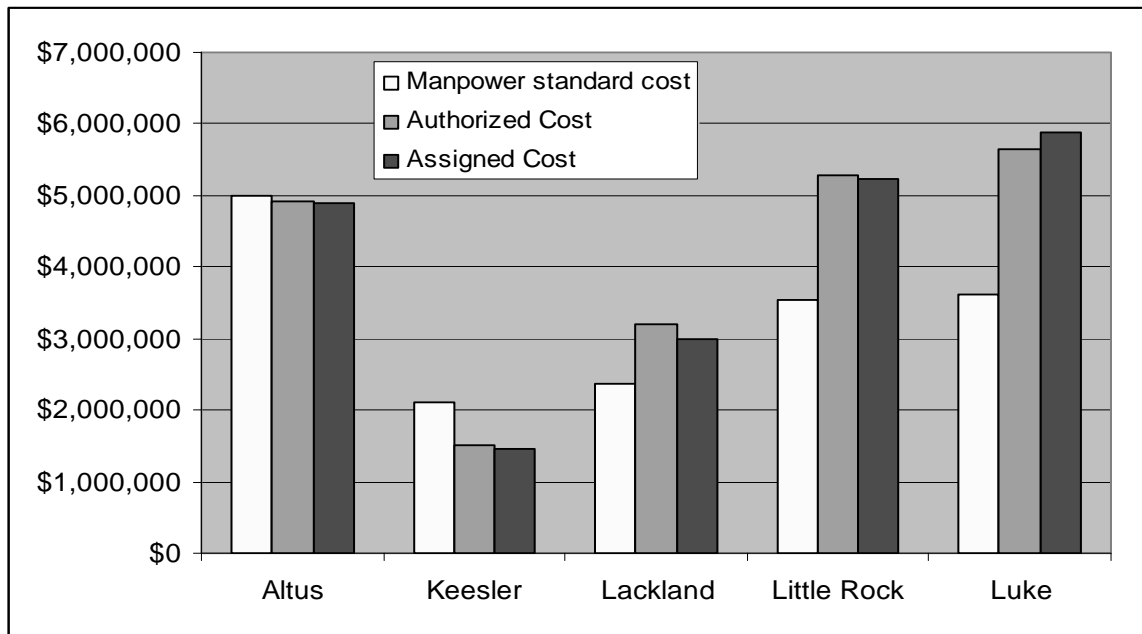


Figure 8. Manpower Standard Costs vs. In-house Costs at In-house Organizations

A similar comparison was then made between the contracted organizations and their calculated manpower standard costs. This comparison is shown in Figure 9. Table 2 then compares the percentage of the calculated manpower standard cost to the actual organization cost. This comparison uses the assigned-personnel cost for in-house organizations, as this more accurately captures the cost to the Air Force.

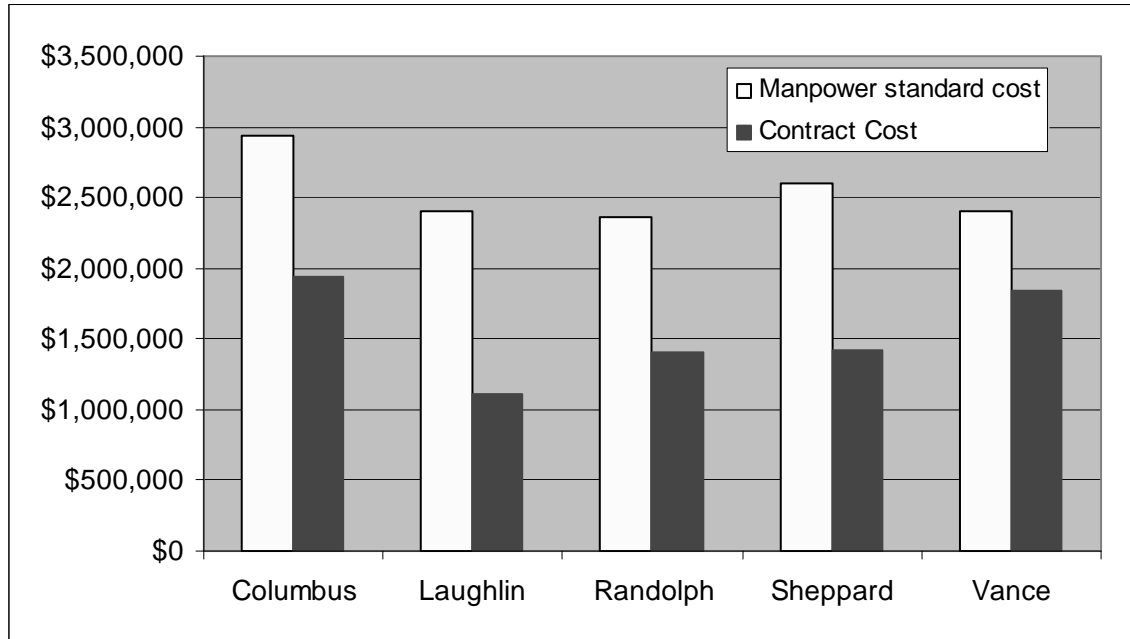


Figure 9. Manpower Standard Cost vs. Contract Cost at Contracted Organizations

Base	In-house	Contracted	Percentage
Altus	X		97.8%
Columbus		X	66.2%
Keesler	X		69.2%
Lackland	X		127.2%
Laughlin		X	46.1%
Little Rock	X		147.5%
Luke	X		162.2%
Randolph		X	59.4%
Sheppard		X	54.6%
Vance		X	76.6%

Table 2. Percent of Actual Cost vs. Manpower Standard Cost

The in-house bases averaged 123.0% of the hypothetical manpower standard cost. As seen in Table 2, Keesler AFB is the only in-house organization to perform the function at a considerably lower cost than dictated by the manpower standard. This is possibly a result of the inherent flaw in the manpower standard for organizations with smaller workloads. The contracted organizations averaged 60.7% of the hypothetical manpower standard cost. Thus, using the manpower standard cost simply to contrast how in-house and contractor actual costs compared to the standard, contractor costs are still economically advantageous overall for the sampled fuel functions.

Findings

Objective 1: Cost Growth of Labor Rates

There was an observed trend of CBA wages growing at a faster rate than SCA wages. Typically, annual CBA base-pay increases were 1.76% higher than the SCA base-pay increases. The analysis showed that the annual composite-pay increases were ~1% higher in CBA positions than in SCA positions. This trend is probably more significant than shown considering the initial jump in wages that often occurs when SCA positions unionize. When positions unionize, the CBA usually negotiates a one-time spike in wages before leveling off. This SCA-to-CBA wage jump was not captured by our analysis because the conversion usually involved a position-name change, preventing direct comparison. The military and CBA wage increases appeared to be the fastest growing of the four pay-types investigated at the seven bases.

Objective 2: Contractor vs. Military Cost Growth

There was a trend that contractors performed fuel functions at a lower cost than in-house in comparison to their calculated manpower standard costs. For contracted services, the actual cost of contractors averaged ~40% less than the cost derived from the manpower standard. For in-house services, the actual in-house cost averaged over 20% higher than the cost derived from the manpower standard. Thus, in these cases, the A-76 actions still appear to be economically advantageous to the government.

Limitations

1. Manpower data is difficult to obtain outside of a limited timeframe. This limits the ability to develop an in-house organization comparable to a contracted organization without significant investment of time and expertise.
2. Contract data is limited in its timeframe. Contracting files are maintained in accordance with the *Federal Acquisition Regulation*. The timeframe of the study is limited to the years that the data is available.
3. There is a limited sample size available for the study. It only includes those service contracts within AETC that have CBAs. The size was further constrained to those locations where multiple contracts exist. This limitation and constraint restricts the general application of the results of the study.
4. Changes in position names/job titles when contractor positions unionize prevent a direct comparison of SCA and CBA wage growth.
5. All military and civilian pay grades were analyzed, but not all pay grades would typically be converted to service contract positions.

Conclusion

This study takes important preliminary steps toward determining whether an additional A-76 competitive sourcing process factor to account for future contract cost growth should be developed. We found the research highly challenging due to the lack of



historical documentation in all areas. The documents recording the manpower assessment at the heart of the A-76 process is almost never available. The assumptions used by evaluators relative to future labor cost growth at the time of the A-76 decision are difficult to acquire, if not impossible. As such, it is difficult if not impossible (perhaps by design) to conduct an assessment of how closely the assumptions at the time of the A-76 track the actual post-decision labor increases. As such, it would be difficult to develop a factor to adjust the assumptions used by evaluators if we cannot determine what the initial assumptions were.

A common perception in the DoD is that CBA cost growth in the out-years makes outsourcing less attractive financially. This study finds that while CBA cost growth is substantial, in our sample functional area, CBA cost growth lagged behind the cost growth of military labor. One explanation may be that while commanders are forced to deal with the realities of increasing contract costs at the MAJCOM and local level, they may be less aware of the challenges of dealing with the even more substantial increases in military personnel costs, which are often dealt with at the Air Staff level.

A final finding of note is that government service civilian cost growth lagged behind both military and contract labor growth, indicating that over time, civilian labor may prove to be the most stable of the three labor types considered. Our findings do indicate that future cost growth is not stable; however, it appears to be instable in both military and contractor labor pools. As such, should a factor be pursued to provide better insight into the future cost of contractor labor, one should also be pursued to provide better insight into military labor cost.

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