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Naval Ordnance Station in Louisville

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Mike Ward
Member of Congress
Third District, Kentucky

Sent 12/13
NM

Charles B. Mattingly
Chief of Staff

Congress of the United States
House of Representatives
Washington, DC 20515–1703

December 11, 1995

The Honorable Alice M. Rivlin
Director
Office of Management and Budget
Executive Office Building
Washington, D.C. 20503

To: Alice
Fr: George
Thanks. The President would like the meeting to happen. GS

Dear Alice:

Congressman Lee Hamilton and I, along with a group of supporters of the privatization plan being undertaken at the Naval Ordnance Station in Louisville met with George Stephanopoulos on December 7.

At our meeting, Mr. Stephanopoulos said that he would arrange for Congressman Hamilton and me to meet with you to discuss the necessity to assist Station workers whose jobs are transferred to a private contractor. Workers who participate in the Civil Service Retirement System need to continue their participation after the transition until they are eligible for early retirement.

A memorandum I prepared for Mr. Stephanopoulos is enclosed. I would be grateful if an appointment with you could be made before we adjourn for Christmas. Your staff may contact Michael Long in my office (226-0135) to make the arrangements.

Thank you for your immediate attention. Congressman Hamilton and I realize how busy you are, but this problem is very pressing.

Sincerely,

Mike

Mike Ward
Member of Congress

MW:mll
Enclosure

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MEMO

To: George Stephanopoulos
Senior Advisor to the President and Assistant to the Chief of Staff for Policy

From: Congressman Mike Ward

Subject: Meeting on Thursday, December 7, 1995 at 5:00 p.m., regarding privatization of the Naval Ordnance Station, Louisville and proposed legislation to protect Civil Service Retirement System benefits for workers affected by privatization

Date: December 7, 1995

The 1995 Defense Base Closure and Realignment Commission (BRAC) decided to close the Naval Ordnance Station, Louisville and the Naval Air Warfare Center, Aircraft Division, Indianapolis. In each case, the Commission directed that appropriate functions be transferred to the private sector, to be performed in place at the closed Navy facility, or that these functions be moved to other Department of the Navy facilities. This briefing paper will examine the Louisville facility as an example of how privatization is expected to work.

The privatization plan being implemented in Louisville envisions transfer of the facility to the Louisville/Jefferson County Redevelopment Authority, which will lease space to private defense contractors. Two contractors are expected to assume depot repair work previously performed by Department of the Navy employees. Navy personnel, primarily engineers, who are associated with the privatized functions will reside in leased space. The contractors are expected to offer Department of the Navy employees right of first refusal for the positions privatized.

Time Urgency

Louisville can be model for successful privatization if we can maintain the highly skilled workforce. However, essential employees are receiving job offers under the Priority Placement Program on a daily basis. Action is needed **this year** to retain key personnel and stabilize the Louisville workforce. Due to hard work and cooperation, the privatization plan is well on its way and the date for turnover to the private sector is August 1, 1996.

Privatization Advantages

Privatization in lieu of closure is expected to **save money** while **continuing essential functions** and **preserving capability.**

Successful privatization will **save nearly $200 million** that it would cost to close the Louisville facility and move the work to other Department of the Navy facilities. The costs avoided through privatization include: 1) military construction costs of $44 million at receiving sites; 2) $59.6 million to relocate equipment installed in Louisville; 3) $93.5 million in civilian personnel costs, including relocation and retraining costs; and, 4) approximately $6 million in minor construction and procurement costs.

This plan is very consistent with the Administration's efforts to reinvent government by creating a new way for government to work more efficiently.

Our Employees, the Key to Success

The private contractors need the skills and knowledge of the current Navy employees. Privatization cannot succeed without current Navy employees. Hiring and training new employees to perform the depot workload at Louisville will result in unacceptable costs to the contractors and the Navy, and will disrupt work which is essential to military readiness.

CSRS Retirement, the Key to Employee Stability

Transfer of the Louisville facility to private contractors is expected by August 1, 1996. At that time, approximately 40% of the workforce will consist of employees covered by the Civil Service Retirement System (CSRS) with less that 25 years service. **These employees are not covered by Social Security and the CSRS system lacks any "pension portability."** These employees, who have served the Department of the Navy for between 15 and 25 years, with substantial numbers of whom served in the armed services, will end up with no retirement annuity except a small, devalued amount (a "deferred annuity") at age 62. The inequity which exists because of the lack of portability in CSRS can be illustrated by looking at the cases of two typical privatized employees:

1) A WG-10 machinist, age 47 with **24 years of service** could, upon privatization, receive severance pay of $34,707. If the employee chooses to leave the $37,510 in CSRS retirement contributions in the system, the employee becomes eligible for an annuity of $15,000 at age 62 (this annuity will be worth about $9,500 at that time.)

2) A WG-10 machinist, age 47 with **25 years of service** could, upon privatization, begin immediately receiving an annuity of approximately $14,000; cost of living adjustments will help avoid the erosion in value of this annuity by inflation.

This is **the** critical employee issue with privatization, and is causing severe instability in the workforce. Without action to protect employees who stand to lose their retirement benefits, employee productivity and morale will not recover from the facility closure trauma. In addition, the most knowledgeable, skilled employees are feverishly job hunting, utilizing DOD's Priority Placement Program to find other federal employment in order to protect their retirement benefits. CSRS effectively **locks these employees into federal jobs, and means that the contractors may be unable to hire the skilled, knowledgeable workforce essential to success.**

The Legislative Proposal

Through legislation, we should allow CSRS employees, after privatization, to continue to earn creditable service for purposes of Civil Service retirement until eligible for early retirement. Since the privatized employee (and the contractor) will also pay into Social Security, we propose an "offset program" similar to the current Federal Employee Retirement System (FERS) (the new, more portable retirement program which replaced CSRS for newly-hired federal workers). The privatized employee and the contractor would each contribute to the Civil Service Retirement System the difference between what is contributed to Social Security's Old Age, Survivors, and Disability Insurance Trust Fund and what would normally be contributed by the employee and the employing agency to the Civil Service Retirement System. Because the amount contributed to the CSRS system would be less than what would have been contributed prior to privatization (when the employee and agency did not contribute to Social Security), there would be a corresponding reduction in the annuity which the employee would receive upon reaching 25 years of service (or 20 years of service at age 50.) Upon becoming eligible for a CSRS annuity, the employee would leave this offset system and go into the contractor's pension plan.

What is the Difference?

Without Privatization: The depot workload performed at the Naval Ordnance Station, Louisville would be moved to Navy facilities at Crane, Indiana, Norfolk, Virginia, and Port Hueneme, California. The federal government would be responsible for the military construction costs, the equipment relocation costs, and the employee relocation costs cited earlier. In addition, the Department of the Navy would continue contributions to the CSRS retirement fund until the employee retires, and the federal government would be liable for the lifetime annuity costs for the employee.

With Privatization: The depot workload will continue to be performed in Louisville, by private contractors. The federal government avoids approximately $200 million in military construction costs, equipment relocation costs, and employee relocation and retraining costs. The contractor, rather than the Department of the Navy, will contribute to the CSRS retirement fund until the employee retires. The federal government would be liable for the lifetime annuity costs for the employee. The savings from privatization will more than offset any costs which may be incurred because of the unfunded liability costs of extending Civil Service Retirement System benefits to any additional workers.

Bottom Line

We must **stabilize the workforce** for privatization to succeed. This can be done by making CSRS "portable" for Department of the Navy employees whose work is transferred to private contractors. **This change to allow orderly privatization will not significantly increase CSRS retirement system costs because, with or without privatization, the government will be liable for these employee annuity costs.** On the other hand, the government will save significantly under privatization by avoiding military construction costs, equipment relocation costs, and employee moving costs. However, the base closure discussions should evolve to include retirement system costs as legitimate base closure costs.

Successful privatization will: 1) **enhance military readiness** by avoiding inevitable disruptions in depot work during relocation of that work to other facilities; 2) result in more efficient utilization of excess defense infrastructure by **facilitating dual use** of these facilities for commercial as well as military work; 3) help maintain a **viable private-sector defense industrial base** at a time when decreased procurement of new weapons systems has threatened the financial stability of the defense sector of our economy; and, 4) **save jobs and minimize economic disruption** in communities affected by defense conversion and downsizing resulting from decisions of the Defense Base Closure and Realignment Commission.

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Committee on Science

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MEMO Summary

Subject: Privatization of Naval Ordnance Station Louisville

Date: December 7, 1995

1995 Defense Base Closure and Realignment Commission (BRAC) decided to close NOSL with direction that appropriate functions be transferred to private sector, privatized in place or moved.

Louisville's privatization plan envisions transfer of facility to Louisville/Jefferson County Redevelopment Authority. Two contractors are expected to assume depot work, offering Navy employees right of first refusal. Associated Navy engineers will reside in leased space.

TIME URGENCY
Essential employees are receiving job offers daily through PPO.
NOSL privatization turnover on August 1, 1996.

PRIVATIZATION ADVANTAGES
Privatization will save $200 million while continuing essential functions and preserving capability. Plan consistent with REGO.

OUR EMPLOYEES, THE KEY TO SUCCESS
For plan to work, we must retain the NOSL workforce.

CSRS Retirement, the Key to Employee Stability
40% of workforce in CSRS with less than 25 years service.
CSRS lacks pension portability, therefore locks employees into federal jobs.

LEGISLATIVE PROPOSAL
Propose "offset program" similar to FERS. Contractor and employee would contribute to CSRS an amount less than prior to privatization which would be a corresponding reduction in the employee's annuity. Upon CSRS eligibility, employee would leave offset program and enter contractor's pension plan.

WHAT IS THE DIFFERENCE?
Without privatization -Relocated workload means federal government is responsible for Mil Con costs and all equipment and relocation costs.
With privatization - The savings above will more than offset any costs incurred due to the unfunded liability of extending CSRS.

BOTTOM LINE
For privatization to succeed, we must stabilize workforce. This change for CSRS will allow orderly privatization without significant costs, because with or without privatization government will be liable for these annuity costs.

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LEGISLATION TO ENABLE CERTAIN FORMER EMPLOYEES OF THE DEPARTMENT OF DEFENSE TO CONTINUE PARTICIPATING IN THE CIVIL SERVICE RETIREMENT SYSTEM

(a) IN GENERAL. --Retirement benefits under the Civil Service Retirement System for "transferred employees" shall be protected as provided herein.

(b) DEFINITIONS. --For purposes of this section--

(1) The term "transferred employee" shall mean a permanent employee of the Department of Defense who is covered by the Civil Service Retirement System and who (A) separates from service with the Department of Defense pursuant to a reduction-in-force resulting from the closure of a military installation under the Defense Base Closure and Realignment Act process and who is (B) hired by a contractor as defined in subsection (b)(3) within 60 calendar days following such separation to perform substantially the same work performed prior to separation; and (c) is not yet eligible for an annuity under the Civil Service Retirement System; and, (D) who elects to remain covered under the Civil Service Retirement System.

(2) The term "Civil Service Retirement System" shall mean the retirement system under sub-chapter III of chapter 83 of title 5, United States Code.

(3) The term "contractor" shall mean any entity or its successors or assigns which contracts to perform work previously performed by the Department of Defense and performs that work at the same installation and is the employer of transferred employees. A "redevelopment authority with respect to the installation," as determined pursuant to the Defense Base Closure and Realignment Act of 1990, as amended, shall also be deemed a "contractor" when that authority hires former Department of Defense employees who would otherwise be eligible as "transferred employees" under subsection (b)(1).

(c) PROTECTION OF RETIREMENT BENEFITS OF TRANSFERRED EMPLOYEES--

(1) Each transferred employee shall continue to earn creditable service under the Civil Service Retirement System until his or her earliest eligibility for retirement under such system or until the termination of employment with the contractor, whichever comes first.

(2) The transferred employee will cease to earn creditable service under the Civil Service Retirement System when the employee reaches 25 years of service at any age or 20 years of service after reaching age 50. The transferred employee, while continuing to work for the contractor, is eligible to commence receipt of retirement benefits under the Civil Service Retirement System on the same terms and conditions as an employee involuntarily separated from Federal service due to a reduction in force.

(3) A contractor shall not refuse to hire, discharge, or in any other manner penalize or discriminate against any transferred employee because such individual has asserted his or her rights as a transferred employee as provided under this section. From the time the transferred employee ceases to earn creditable service under the Civil Service Retirement System, the transferred employee shall be treated no less favorably under retirement plans sponsored by the contractor than other employees hired by the contractor at the time the transferred employee is eligible to retire under the Civil Service Retirement System.

(4) Prior to the time that the transferred employee ceases to earn creditable service under the Civil Service Retirement System, the transferred employee shall contribute to the Civil Service Retirement System an amount equal to the excess of (I) the amount that would have been contributed to the Civil Service Retirement System by such transferred employee, had such transferred employee not separated from the Department of Defense, over (II) the amount contributed by the transferred employee to OASDI.

(5) Prior to the time that the transferred employee ceases to earn creditable service under the Civil Service Retirement System, the contractor shall contribute to the Civil Service Retirement System an amount equal to the excess of (I) the amount that would have been contributed to the Civil Service Retirement System by the Department of Defense on behalf of the transferred employee, had such transferred employee not separated from the Department of Defense, over (II) the amount contributed by the contractor on behalf of the transferred employee to OASDI after hire by the contractor. Contributions made by the contractor to the Civil Service Retirement System pursuant to this subparagraph shall be considered employee fringe benefits for Government contract accounting purposes.

(6) Benefits payable under the Civil Service Retirement System to a transferred employee shall be actuarially reduced to reflect the reduced rate of contributions made to the Civil Service Retirement System as prescribed by 5 USC 8343a(c). The lump sum amount for purposes of 5 USC 8343a(c) will be deemed to the sum of the transferred employee and agency contributions which would have occurred if the transferred employee had not been separated less the amount contributed by the transferred employee and the contractor to the Civil Service Retirement System. The transferred employee may make additional contributions to the Civil Service Retirement System to reduce or eliminate the benefit reduction described herein.

(7) Notwithstanding any other law, regulation, or other promulgation by any regulatory agency, including but not limited to sections 401(a) and 410(b) of the Internal Revenue Code of 1986, compliance with the foregoing shall not be deemed to adversely affect the compliance of any benefit program or compensation system sponsored by the contractor. Transferred employees shall be excluded from consideration for purposes of sections 401(a) and 410(b) of the Internal Revenue Code of 1986.

(8) The Office of Personnel Management shall promulgate regulations within 90 days of enactment of this section.