

2003 Munitions Summit

The Good, The Bad, and....
Cooperation

The Organic Base

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Day & Zimmermann

First – The Bad

The Rand Study

Rand Recommendation: Privatize GOCO
Ammo Plants

- Cancel current contracts
- Divest facilities
- Renegotiate production contracts
- Didn't include GOGO supply depots

The Bad (cont.)

The Rand Study - Privatization

Well, OK – *But*....

- Environmental Remediation Cost and Timing
- Local, State and Federal Tax Implications
- Effect On Buying Power of Ammo Budget

Next – The Good

ASA (ALT) Charged AMC To Assess The Rand Study

- **Develop implementation plan – maximum privatization practicable**
- **Tasked rolled downhill to CG, OSC/JMC**
- **MG McManus enlisted ICAP to help**

Industry Input

- **Must have reasonable opportunity/potential for Return on Investment**
- **Government responsible for pre-existing conditions (environmental is a major factor)**
- **There would be non-incumbent interest**
- **Cost of capital forecasted to be higher than other capital investments**
- **The more visibility the Government gives into the long-term plan, the better the price**
- **Without contractual requirements/funding – contractors will only maintain economic capacity/capability for peacetime buys**
- **Government indemnification/insurance against catastrophic loss must be evaluated on a case-by-case basis**
- **Enough unknowns – must proceed with caution**

Options Developed

- Privatization – complete divestiture
 - Installation Becomes COCO
- Public Private Partnership
 - No Government Oversight
 - Reduction/Elimination of Government Staff
 - Commercial Investment
 - Government Initially Owns the Land
 - Environmental Bill Not Due Immediately

Business Case Analysis

• BCA Element Definitions

- **Facility Sales Value** - Estimated sales value for land & equipment, based on discounted cash flow from operations (e.g ammunition sales, ARMS revenue)
- **Facility Revenue** – Average annual revenue the facility will receive after privatization (ammunition sales, ARMS revenue). Excludes PBS revenue after sale.
- **Environmental Liability** –
 - **Installation Restoration Program (IRP)** – Liabilities associated with the CERCLA (Superfund). These liabilities are now programmed, and remediation is on-going.
 - **Resource Conservation and Recovery Act (RCRA)** – On-going liabilities associated with compliance with RCRA permitted areas on a facility. The majority of these costs are not currently programmed, and may be accelerated when status of a facility changes

• BCA Result Definitions

- **CUM NPV** – Cumulative Net Present Value. Cash flow for each alternative is discounted over the 20 year economic life.
- **NPV Savings** – The difference between the CUM NPV for each alternative and the baseline.
- **Ammo Unit Price Increase** – The average unit increase in PAA hardware, 2005 to 2009.
- **Total Impact Near Term Budget** – The total impact to budget, 2003 to 2009, from all BCA elements studied.

Summary of Analysis

- Privatization or Public Private Partnership does not yield same economies of scale as current course of action
- The most broad-reaching aspects of this analysis are the impacts on price of product and POM budgets
 - Product price increases from 7 to 36 percent
 - \$900M to \$1.5B POM impact
- Execution of a POM time line may not be affordable

View of Industrial Base Risks

Likelihood of Success

Political Risk
Soft landing for losers
Legislative risks

Sustainable Readiness

Market Risk:

Demand from DoD
Ability to support all services
Reserve Capacity

Security of Supply

Competitive/monopoly
Overseas suppliers
Peacetime vs. Reserve Capacity



**EVALUATING
THE
RISKS**

Technology Trends:

Product obsolescence
Process obsolescence
Ability to adapt to new technology

**Economics & Facility
performance/costs**

Operating cost
Obsolescence
Recapitalization
Alternative use/tenants
Insurance
costs/Indemnification
Impacts to Near Term
Budget

**Impact on Ammunition
Operational performance/cost**

Predictability
Staff costs/availability
Facility/plant obsolescence
Cost of product

Finally - Cooperation

- **Concerned Industry**

- ICAP
- MIBTF

- **Industry – Government**

- ICAP Participation

- **Internal Government**

- PEO – OSC/JMC

I'm Encouraged...