



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 14, 2003

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THE DIRECTOR

The Honorable Lane Evans
U.S. House of Representatives
Washington, DC 20515

Dear Representative Evans:

I appreciate your interest in the current competitive sourcing efforts by the Department of Veterans Affairs (VA). The Administration is committed to providing our nation's veterans with the highest quality health care in the most efficient manner.

As you know, VA employs approximately 190,000 employees in the Veterans Health Administration alone. Many of these employees are providing ancillary services that may be performed more efficiently in the private sector. VA will not subject its core health care functions to broad-scale competitive sourcing studies, but based on agreements with OMB, VA will use a streamlined, market-based analysis approach to study approximately 19 ancillary service functions that involve approximately 55,000 employees with annual salaries totaling over \$1.9 billion. This approach will allow VA to meet the intent of the President's Management Agenda and ensure that VA appropriations are optimized for direct patient services.

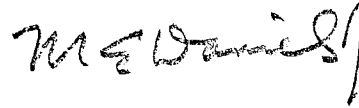
The focus of these studies will be on "non-core" ancillary functions and require establishment of effective partnerships and performance-based contract management. Where possible, individuals impacted by competitive sourcing studies will be reassigned and cross trained to core functions. Through these methods, VA will be able to ensure that long-term capacity or levels of performance are of high quality.

Based on calculations of annual salary for each of the 19 functions and a 5-year time frame for competitive sourcing studies of these functions, VA estimates over \$1.3 billion in savings. This estimate assumes an average savings percentage of 17.5% from internal efficiency enhancements resulting from reengineering activities or from contracting out services to highly qualified contractors. This estimate also includes recurring annual net savings. As a clarification, the \$3 billion projection stated earlier is based on a 30% savings rate, which is the best-case scenario. As we gain more experience, our savings estimates will be continually refined. The attached tables present the list of 19 functions to be studied, the projected savings, and the phasing of full time employee studies.

VA does not plan to contract with firms that hire foreign employees or perform work out of the country. For example, Ocwin, the company that VA has preliminarily selected to perform our property management function, has made a commitment to VA that all work will be performed in the United States.

I want to reiterate that our goal is not necessarily to move jobs into the private sector but to study the most efficient method of delivering these services while maintaining high quality care. I appreciate your continued efforts on behalf of our nation's veterans, and I hope this letter answers your concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "M E Daniels, Jr.", written in a cursive style.

Mitchell E. Daniels, Jr.
Director

Attachment

COMPETITIVE SOURCING PLAN ESTIMATED STUDY COMPLETIONS AND SAVINGS FOR FY 2003 - 2008

Title	Total FT&PT	Total Salaries ¹	Projected Savings Rate						
			Total 5-year	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
			17.5%	11.9%	41.5%	21.0%	13.4%	7.3%	4.8%
			Projected One-Time Savings Over 5 Years	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
DIAGNOSTIC RADIOLOGY	4,068	\$184,936,453	\$32,363,879	\$3,863,292	\$13,444,256	\$6,799,394	\$4,326,887	\$2,373,607	\$1,556,443
PATHOLOGY & LAB MED SVC	6,733	\$300,484,773	\$52,584,835	\$6,277,077	\$21,844,229	\$11,047,656	\$7,030,327	\$3,856,636	\$2,528,909
PHARMACY	8,216	\$427,209,045	\$74,761,583	\$8,924,327	\$31,056,657	\$15,706,815	\$9,995,246	\$5,483,106	\$3,595,433
MEDICAL LIBRARIES	357	\$16,222,883	\$2,839,005	\$338,893	\$1,179,349	\$596,452	\$379,561	\$208,216	\$136,533
PLANT OPERATIONS	1,318	\$57,405,519	\$10,045,966	\$1,199,192	\$4,173,188	\$2,110,578	\$1,343,095	\$736,783	\$483,130
GRNDS MAIN & OTH MISC OP	535	\$18,000,341	\$3,150,060	\$376,024	\$1,306,564	\$661,803	\$421,147	\$231,029	\$151,493
RECURRING M&R/ST APRD PROJ	3,754	\$156,241,867	\$27,342,327	\$3,263,867	\$11,358,257	\$5,744,406	\$3,655,531	\$2,005,320	\$1,314,947
NONRECURRING M&R	196	\$1,748,123	\$305,922	\$36,518	\$127,083	\$64,272	\$40,900	\$22,437	\$14,712
OPERATING EQUIPMENT M & R	714	\$29,865,546	\$5,226,471	\$623,886	\$2,171,124	\$1,098,040	\$698,753	\$383,316	\$251,351
BIOMEDICAL ENGINEERING	985	\$51,140,620	\$8,949,609	\$1,068,319	\$3,717,751	\$1,880,242	\$1,196,517	\$656,375	\$430,404
ENVIRONMENTAL MGT SVC	378	\$17,924,565	\$3,136,799	\$374,441	\$1,303,055	\$659,017	\$419,374	\$230,057	\$150,855
GROUND MGMT OPERATIONS	63	\$2,098,470	\$367,232	\$43,837	\$152,552	\$77,153	\$49,097	\$26,933	\$17,661
SANITATION OPERATIONS	8,397	\$208,810,298	\$36,541,802	\$4,362,013	\$15,179,804	\$7,677,142	\$4,685,454	\$2,680,021	\$1,757,368
LAUNDRY & DRYCLEANING OP	1,002	\$26,574,811	\$4,650,592	\$555,143	\$1,931,899	\$977,052	\$621,761	\$341,080	\$223,656
LINEN & UNIFORM OPERATION	557	\$15,171,865	\$2,655,076	\$316,938	\$1,102,943	\$557,610	\$354,970	\$194,727	\$127,688
MCCF	2,295	\$79,788,986	\$13,963,073	\$1,666,779	\$5,800,390	\$2,933,531	\$1,866,792	\$1,024,069	\$671,512
MED INFO & RECORDS SECT	4,038	\$124,472,569	\$21,782,700	\$2,600,211	\$9,048,736	\$4,576,372	\$2,912,237	\$1,597,570	\$1,047,573
NUTRITION & FOOD SERVICE	8,752	\$248,128,438	\$43,422,477	\$5,183,362	\$18,038,101	\$9,122,718	\$5,805,366	\$3,184,658	\$2,088,273
TOTAL	52,358	\$1,966,225,172	\$344,089,405	\$41,074,120	\$142,937,938	\$72,290,451	\$46,003,015	\$25,235,939	\$16,547,942

Number of completed studies and commercial FT/PT reviewed: 52,358 6,250 21,750 11,000 7,000 3,840 2,518

Quarterly Savings Per FTE: \$1,643

	Projected Cumulative Savings Over 5 Years					
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1st Quarter	\$0	\$20,537,060	\$50,931,909	\$67,361,557	\$77,219,346	\$83,265,456
2nd Quarter	\$0	\$30,805,590	\$55,860,803	\$70,647,487	\$78,862,311	\$84,645,547
3rd Quarter	\$0	\$41,074,120	\$60,789,698	\$73,933,416	\$80,505,275	\$86,022,351
4th Quarter	\$10,268,530	\$46,003,015	\$64,075,627	\$75,576,381	\$81,885,366	\$86,022,351
Total	\$10,268,530	\$138,419,785	\$231,658,038	\$287,518,841	\$318,472,298	\$339,955,706

Cumulative Savings:	\$10,268,530	\$148,688,315	\$380,346,352	\$667,865,193	\$986,337,491	\$1,326,293,197
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	Projected FTE Studied					
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1st Quarter	0	6,250	3,000	2,000	1,000	840
2nd Quarter	0	6,250	3,000	2,000	1,000	840
3rd Quarter	0	6,250	3,000	2,000	1,000	838
4th Quarter	6,250	3,000	2,000	1,000	840	0
Total	6,250	21,750	11,000	7,000	3,840	2,518

	Cumulative FTE Used for Calculating Savings					
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
1st Quarter	0	12,500	31,000	41,000	47,000	50,680
2nd Quarter	0	18,750	34,000	43,000	48,000	51,520
3rd Quarter	0	25,000	37,000	45,000	49,000	52,358
4th Quarter	6,250	28,000	39,000	46,000	49,840	52,358