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Denton, William F.; Byrom, Jonathan C.; Ainsworth, Lyle P.
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**NAVAL
POSTGRADUATE
SCHOOL**

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

**The Advanced Security Operations Corporation
Special Weapons and Tactics Initiative:
A Business Plan**

**By: William F. Denton
Jonathan C. Byrom, and
Lyle P. Ainsworth
December 2004**

**Advisors: Nicholas Dew,
Cary Simon**

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**The Advanced Security Operations Corporation
Special Weapons and Tactics Initiative:
A Business Plan**

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Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
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**THE ADVANCED SECURITY OPERATIONS CORPORATION
SPECIAL WEAPONS AND TACTICS INITIATIVE:
A BUSINESS PLAN**

ABSTRACT

The purpose of this MBA Project is to investigate and provide a comprehensive overview of the current state of affairs with regard to the privatized security industry. The project focuses on a business plan that will cover three phases for a start-up company to enter the private security market. The purpose of Advanced Security Operations Corporation (ASOC) is to enter and profit from the growing Privatized Military Industry (PMI) trend.

This proposal looks at establishing a network of centralized SWAT teams whose sole mission is to train and conduct SWAT operations. These teams will greatly increase the chance of success and minimize casualties, while greatly reducing cost. ASOC will use collaborative efforts with local, state and national law enforcement agencies in order to maximize this innovative and value-added plan.

The goal of government should be to drastically reduce the cost of redundant and inefficient services. By following the trend to outsource services and create a privately run and centrally located SWAT Team, the local, state, and federal government can create a long term capability that is less expensive, yet has a greater capability for mission success. The costs-benefits and problems/solutions that would face such an endeavor are the focus of this project.

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I. INTRODUCTION

A. ASOC SPECIAL WEAPONS AND TACTICS (SWAT) INITIATIVE

Contracting tasks that are not a business core competency is a trend that is growing exponentially in business. The military has pursued this business approach and is contracting a myriad of services including logistics and personal protection in combat zones. Governments and cities have begun contracting redundant services that they can share with adjacent public entities.¹ Numerous studies have concluded that this business practice can greatly reduce costs.

The purpose of Advanced Security Operations Corporation (ASOC) is to enter and profit from this growing Privatized Military Industry (PMI) trend. The niche that ASOC is looking to use to enter the market would be to create privatized SWAT Teams near large metropolitan areas. These Teams would meet all the SWAT needs of these areas while drastically reducing the cost of supporting independent teams.

The growing trend in almost every police department before and especially after 9/11 is to have a SWAT Team of some sort. Even the United States Coast Guard is looking to create its own SWAT Team.² Most SWAT Teams are made up of police officers that work and train part-time for SWAT missions. Police departments have also considered an initiative to start "multi-jurisdictional" SWAT teams to reduce costs. However, these teams are still made up of officers from different police departments that come together only occasionally to train and are plagued by conflicts over command and control. Various leaders and officials are also concerned that the para-militarization of these officers may be sending the wrong message to the public about the direction of law enforcement.

After 9/11, the government entered a new Homeland Security era. They have begun to allocate financial resources to create and support local law enforcement including SWAT teams. A mixed conglomerate of police officers that only do SWAT

¹ <http://www.waterindustry.org/Water-Facts/florida-con-ops.htm>

² http://schumer.senate.gov/SchumerWebsite/pressroom/press_releases/PR02026.html

missions and training part time, though, will lead to sub-optimization of these teams. This sub-optimization will increase the risk to these officers, hostages and civilians in a time of crisis and reduce the chance for success. Examples of such sub-optimized responses can be seen at Columbine High School in the United States and Soviet attempts at hostage rescue in recent incidents with Chechen terrorists.

This proposal looks at establishing a network of centralized, highly specialized, SWAT teams in the Southern California area --Los Angeles (LA) in particular-- whose sole mission is to train and conduct SWAT operations. These teams will greatly increase the chance of success and minimize casualties while greatly reducing cost. ASOC will use collaborative efforts with local, state and national law enforcement agencies in order to maximize this innovative and value-added method of protecting America.

B. SWAT MARKET

The Department of Homeland Security is allocating grant money to local governments for anti-terrorism protection. The Office for Domestic Preparedness Funds, which originate with the Department of Homeland Security, are awarded to and distributed through the State Administrative Agency designated by the Governor of each state.³ Total funding provided through the Office for Domestic Preparedness Funds alone this award cycle is \$2.2 billion. California was the largest recipient with a total of \$176,499,000 divided into \$133,964,000 for the state Homeland Security Program and \$39,752,000 allocated for law enforcement terrorism prevention.⁴

The total funding for the Los Angeles SWAT market alone is substantial with a potential market of \$112,108,439. Taking into account potential overlap, the initial redundant funds for SWAT missions in Los Angeles are \$10,800,000. This redundant SWAT market represents immediate business opportunities.

³ http://www.ojp.usdoj.gov/odp/grants_programs.htm

⁴ http://www.ojp.usdoj.gov/odp/docs/fy04hsgp_appkit.pdf

Another potential market in the SWAT market is coordinating between the various SWAT organizations. The only element of the SWAT market attempting to fill this role is the Los Angeles County Sheriff's Department SWAT but they do not cover all the local police SWAT teams and federal agencies. The Los Angeles Terrorism Early Warning Group attempts to address this need but does not provide real-time, on-call coordination for the various SWAT agencies. Thus, the Los Angeles SWAT market is ripe with business opportunities for capable and competent security experts.

C. PHASES FOR MARKET ENTRY

ASOC intends to segment its growth and development into three phases to enter the SWAT market. In each phase, the company must realistically determine what services it is able to provide with the capital assets it can obtain.

During the implementation phase, or Phase 1, ASOC will act as a security consultation and coordination firm. ASOC will provide expert advice in matters concerning security operations for local law enforcement agencies. ASOC will also act as a central point of contact for the coordination of command and control operations for emergency response.

Phases 2 and 3 will introduce actual operating teams into the market environment. Phase 2 will stand up one team in Los Angeles. Once that team is well established and the operating characteristics are evaluated and proven sound, Phase 3 will establish several teams to handle the southern half of California and Las Vegas. Future growth projections will encompass covering the rest of the United States and then working into the potential international markets.

D. SWOT

After determining its potential market, the next step for ASOC is to analyze its own strengths and weaknesses and apply these to the numerous outside threats and opportunities. ASOC has many internal strengths and weaknesses. Its strengths, though,

outweigh the weaknesses. These strengths consist of substantial savings in financial costs for local and state governments. They also involve the ability to focus and coordinate SWAT activities.

Though the potential weaknesses in a private SWAT company are plentiful, ASOC has a plan to counter the weaknesses during each phase. During the Phase 1 consulting focus, ASOC can build the necessary relationships and experience levels to counter the Phase 2 and 3 politics, marketing, legal, infrastructure, and financial weaknesses.

The opportunities for a private SWAT company are also numerous and far outweigh the threats. The threats discussed above are real but can be countered with aggressive marketing campaigns and in-depth planning. The pivotal strategy to enter the market early will allow ASOC to seize the initiative and counter many of the competition threats.

Just as Phase 1 prepares ASOC to deal with its potential Phase 2 and 3 weaknesses in its internal strength and weakness analysis, the same concept applies to the outside opportunity and threat analysis. By entering the market as a consulting firm, ASOC can learn to seize the opportunities and counter the threats imposed on the SWAT operational second and third phases. By learning the SWAT business and developing key relationships with SWAT stakeholders in law enforcement and local and state governments, ASOC will have the necessary knowledge to understand the politics and financial intricacies before it invests in substantial SWAT operational assets.

Based upon the SWOT analysis, there is an excellent fit between the emerging private SWAT market and all three phases of ASOC's business strategy.

E. FINANCIAL ANALYSIS

Based on the potential market and its own internal capabilities, ASOC must examine its forecasted income and cash flow statements. In this proposal, ASOC determined that it would analyze two different financial scenarios to determine if the business is financially worth the investment of time and resources. The first scenario

involved an optimistic scenario where ASOC had a substantial share of the market as it transitions between phases. The second scenario analyzes a worst-case scenario where only one local police department contracts their services and other police departments are slow to sign contracts with ASOC. This worst-case scenario addresses revenue and cash-flow issues that are pivotal to a business staying in business during the tough beginning years.

Based on the financial analysis, ASOC should be able to make an immediate profit in the optimistic scenario. It will have a tougher time, though, in the worst-case scenario and will have to look for alternate sources of income as it transitions between phases. It also will have to be creative in acquiring cash for daily operational expenses and aggressively cut costs until cash flow and revenue can cover expenses. ASOC should be able to survive this worst-case scenario and eventually make a profit if business is difficult at the beginning of its business.

F. CONCLUSION

This business proposal analyzes the potential SWAT market in Los Angeles and Southern California. It also explains the capabilities ASOC can offer and the business strategy that ASOC plans to employ. It conducts a SWOT analysis and a cost-effectiveness analysis to look closely at what ASOC can offer and what it should concern itself with. Lastly, it analyzes whether ASOC should pursue this private SWAT business and whether it can make any money offering services to the public law enforcement community and private business community.

The goal of government should be to drastically reduce the cost of redundant and inefficient SWAT services. The SWAT trends are similar to the problems that face the American intelligence community. By following the trend to outsource services and create a privately run and centrally located SWAT Team, the local and federal government can create a long term capability that is less expensive, yet has a greater capability for mission success. ASOC can provide this professional, competent, and effective SWAT capability.

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II. MARKET ANALYSIS

A. SCOPE AND OBJECTIVES

The first step in building a business proposal is to determine if a market exists for a company. Before launching a business, the founders need to conduct a market opportunity analysis. A marketing opportunity analysis “determines the attractiveness and success probability” of a business opportunity.”⁵ Since Advanced Security Operations Corporation (ASOC) is in its infancy stage, a determination must be made as to how much money is available in the SWAT market in the target area. ASOC has long-term goals of reaching the Las Vegas / Southern California market but will focus initially on Los Angeles.

The chapter will begin with an overview of the history of SWAT organizations. This history will focus on the growth of SWAT since its beginning. It will define SWAT and explain its mission. The chapter will then analyze potential SWAT markets for ASOC focusing on the threat to high-risk transportation and government facilities in Los Angeles. The chapter will then explore how much money is being spent in the Los Angeles area on SWAT focused organizations. It will initially examine local SWAT teams and then will shift focus to federal SWAT teams in the Los Angeles area. Established budget numbers and educated assumptions will be used to determine the total amount of money that government is spending to fund these SWAT organizations. Lastly, this chapter will discuss the various grants that the Department of Homeland Security is offering to the Los Angeles area. These costs and grant opportunities should provide an approximate value of the various SWAT markets in the Los Angeles area.

The chapter will conclude with an analysis of the overlapping roles of various SWAT organizations. These overlapping roles will give ASOC an important marketing focus as it attempts to enter the government-based SWAT market with a privatized company. These overlapping missions and geographical areas of the numerous SWAT

⁵ Kotler, Philip. (2003). *A Framework for Marketing Management* (2nd ed.). New Jersey: Pearson Education.

teams in Los Angeles will provide a good starting point to identify potential markets and eventually sell ASOC's services more efficiently and cost-effectively than the current local police and federal agency teams.

B. HISTORY OF SWAT

SWAT is an acronym meaning Special Weapons and Tactics. Most citizens of the United States recognize SWAT as a specialized police unit that supports the general line officers in situations that are beyond their capabilities and training. Members of a typical SWAT organization are organized into four-member teams and are trained to perform high-risk operations. The teams are typically equipped with more complex equipment, weapons, and vehicles such as secure radios, high-powered rifles, sub-machine guns, armored vehicles and helicopters.

The city of Los Angeles, California is the home of the first SWAT unit. In the 1960s, the city was faced with new and unusual challenges to law enforcement. Incidents involving the sniping of police officers and the taking of hostages convinced officers in the department that a unit of specially trained personnel was required to handle special contingencies. They reasoned that line officers could not handle these unusual circumstances effectively due to their limited weapons training, infrequent weapons practice and little or no team training. The team training that the line officers did receive was in the form of crowd control or "riot police" training, and that type of training did not prepare officers to deal effectively with the new threats.⁶

The first SWAT unit was initially comprised of 60 officers divided into 15 four-man teams. The officers were required to attend monthly training in special weapons and tactics. As a result of their elevated status as specialized officers, they received additional benefits and pay. The new SWAT unit had the additional duty to protect police facilities during "times of civil unrest".

⁶ <http://en.wikipedia.org/wiki/SWAT>

C. SWAT FORMATION

1. Local Level

After the Los Angeles founded its first SWAT unit, other metropolitan areas began to realize that they faced many of the same problems in law enforcement. As populations rose in urban areas, the incidence of violent crime rose as well. In order to combat the new issues raised by the rapid expansion of violent crime, cities and counties turned to the Los Angeles SWAT model for rapidly deployed and specialized units to overcome these security issues.

In the early 1970s, New York City founded its Emergency Service Unit⁷. The Emergency Service Unit is used primarily to coordinate with and support the activities of other units within the New York Police Department. Chicago, Illinois soon followed by implementing a Hostage Barricade and Incident Team, that has since been renamed the Hostage Barricade and Terrorist Team.⁸

Many other cities and counties have also recognized the need for specialized support teams that have training above and beyond that of the normal line police officer. However, due to the size of their police departments and the infrequent occurrence of the types of crimes that require the sort of intervention that a SWAT unit provides, most of the departments have formed ad hoc teams that are a collateral duty for regular officers. For example, in 1972, the city of Spokane, Washington formed its first SWAT team from five regular officers.⁹ According to the team's historical website, "...the Team consisted of five members, who had their own military fatigues and who's [sic] arsenal consisted of two pump shotguns, a privately owned big game rifle, and the department issued six shot revolvers."¹⁰ These officers were not only responsible for their normal duties, but also served on the SWAT team in an on-call status. Many other police and sheriff's departments share responsibilities between the cities and counties that they serve and have cross-jurisdictional agreements for support.

7 <http://www.nyc.gov/html/nypd/html/pct/esu.html>

8 <http://egov.cityofchicago.org/city/webportal>

9 <http://www.spokanepolice.org/spdswat.htm>

10 <http://www.spokanepolice.org/spdswat.htm>

2. Federal Level

The necessity for specialized response teams is not isolated to local communities. In 1982, the United States Department of Justice created a special counterterrorist unit to supply support for “...any extraordinary hostage crisis occurring within the United States.”¹¹ The Federal Bureau of Investigation (FBI) was authorized by the Attorney General to form what is now called the Hostage Rescue Team (HRT). The team became active in 1983 and was originally composed of 50 agents.

The HRT has since grown to more than 90 agents and is a full-time national level response team.¹² The team is required to deploy within four hours and is composed in such a way that it can move out with some, or all of its equipment and personnel depending upon the severity of the incident.

The Drug Enforcement Agency (DEA) also has a team of trained professionals whose job entails support of local law enforcement agencies in the fight against drug-related crime. Formed in 1995, the DEA’s Mobile Enforcement Team (MET) was created to overcome two important shortfalls that existed in local law enforcement. The shortfalls were in equipment and personnel diversification.¹³ Through standardization of equipment and training, the MET teams were able to significantly reduce drug-related activities in the communities they supported. The teams only deploy when requested by local law enforcement agencies.

Other Federal agencies that have some sort of “Tactical Operations Unit” (TOU) include, but are not limited to, the U. S. Custom’s Agency, the U. S. Marshall’s Office and the U. S. Coast Guard. In every case, the reason for the formation of a TOU was in response to a threat that could not be easily overcome by normal tactics and training. At the federal level, all agencies are supposed to coordinate with each other and also coordinate their activities with local law enforcement.

11 <http://www.fbi.gov/hq/isd/cirg/tact.htm>

12 <http://www.fbi.gov/hq/isd/cirg/tact.htm>

13 http://www.usdoj.gov/dea/pubs/history/deahistory_06.htm

3. The SWAT Mission

The mission of a SWAT team or TOU consists of many varied sub-missions that are all specialized depending on the type or types of threats for which the teams were formed. The sub-missions that the teams perform are those that normal line law enforcement officers are neither trained nor equipped to deal with. Teams train in many different mission areas that include, but are not limited to: hostage rescue tactics, defensive tactics, combative subjects, response to high-risk situations, bus interdiction, warrant service, and room clearing in low- to high-risk incidents.

4. Growth and Expansion

As of 2000, it was estimated that approximately 90 percent of all law enforcement agencies in the United States that serve populations of 50,000 or more have some type of TOU.¹⁴ From the humble beginnings of the first SWAT programs in the early 1960s, programs have emerged at all levels of law enforcement. With the enhanced security posture of the United States due to the recent terrorist events of September 11, 2001, the trend of creating specialized teams to handle specific threats will only continue to grow.

In the 1980s, a law enforcement agency may have had to deploy its TOU only about once every month. Today, the number of call-outs has risen dramatically and an agency may be required to deploy its TOU weekly, or even daily. An average TOU of the 1980s conducted training for approximately 75 hours annually. Today, the average training time that is devoted to tactical training has also increased to more than 225 hours per annum.¹⁵

Due in large part to the rise in violent crime and the ever-present threat of terrorism, the growth of small town SWAT teams has been steadily on the rise. SWAT teams are no longer limited to large metropolitan areas. Currently, there are more than 30 SWAT teams serving the Los Angeles, Orange County, and San Bernardino metropolitan

¹⁴ <http://libcat.post.ca.gov/dbw-wpd/exec/dbtwpub.htm>

¹⁵ <http://libcat.post.ca.gov/dbw-wpd/exec/dbtwpub.htm>

area.¹⁶ The ideal size for a small town team is ten members, or two teams of five. The five member teams consist of a four-man entry team supported by a sniper. The requirement for two teams is ideal so that they may be mutually supportive of each other during an incident, or if the situation requires, they may operate independently during two separate incidents.¹⁷

Start up costs for teams are estimated to be \$6,000 to \$7,000 per team member for initial training and equipment. The follow-on costs for operating a small town team are estimated to be \$50,000 annually.¹⁸ However, the annual operating costs to operate a full-time team in a large metropolitan area such as the Los Angeles Police Department (LAPD) or the Chicago Police Department (CPD) SWAT teams averages \$5,000,000. It is also estimated that a federal level full-time support team has estimated annual costs of approximately \$4,500,000 annually.

Figure 1 below shows the estimated growth of both teams and budgets from 1967 through 2000.

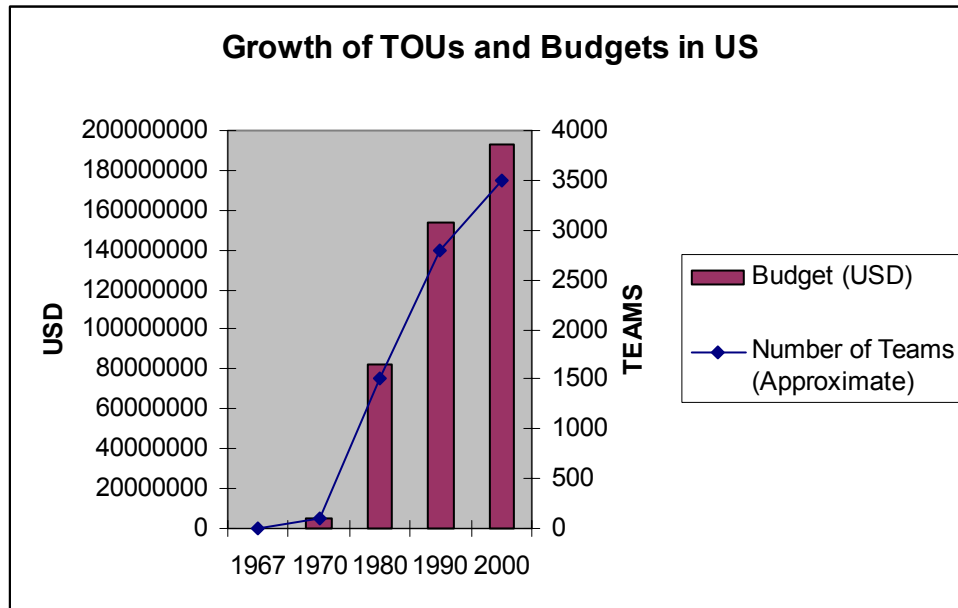


Figure 1. **THE GROWTH OF TOUS AND THEIR BUDGETS FROM 1967 TO 2000.**

16 <http://www.ojp.usdoj.gov/bjs/pub/pdf/lem00lo.pdf>

17 <http://www.hendonpub.com/LawMag/finditem.cfm?itemid=2198>

18 <http://www.hendonpub.com/LawMag/finditem.cfm?itemid=2198>

D. POTENTIAL SWAT MARKETS

Due to recent terrorist actions by both domestic and international terrorists, the United States has heightened its security posture for homeland defense. However, domestic terrorism and violent crime are not the only reasons that security measures should be put in place. Natural disasters can lead to power outages and evacuations that would require the protection of key infrastructure from looting and vandalism. Key assets and facilities that require protection are ports, airports, power plants, governmental buildings and businesses and recreational facilities. In the Los Angeles metropolitan area, there are several of these key facilities.

These facilities have internal security teams but rely heavily on outside law enforcement agencies in the result of terrorist or unforeseen criminal actions. The various SWAT teams throughout Los Angeles play a role in responding to these potential threats. These facilities provide a potential future market for ASOC services.

1. Ports

The Port of Los Angeles is one of the world's largest and busiest sea ports. The port has 27 cargo terminals and spans nearly 43 miles of waterfront. The entire port area spans more than 7,500 acres and has plans to expand an additional 600 acres in the future. The port generates more than \$1.4B dollars in annual tax revenue and is a major employer for southern California.¹⁹ The port and its surrounding facilities are major targets for terrorism due to the major impact on commerce that crippling such a facility would cause.

2. Public Utilities

The public utilities infrastructure such as power production and delivery, communications, water and sewer services are all largely taken for granted in the United States. The communications systems are vital to the coordination of emergency services during any incident or natural disaster. Their disruption could have a catastrophic impact on emergency services when they are needed most. Public utilities such as power

¹⁹ <http://www.portoflosangeles.org>

generation and distribution systems are mostly unsecured and are hard to patrol. The water system, mainly the Los Angeles Aqueduct provides fresh potable water to the entire population that is estimated to be 10,103,000 people in 2004.²⁰ If that system were to become contaminated in a terrorist attack, the results would be devastating.

3. Airports/Railroads

There are four large airports in what is referred to as the Los Angeles World Airport system. The Los Angeles International, Ontario International, Van Nuys and Palmdale Regional airports are the four airports in the system. The Los Angeles International Airport (LAX) by itself ranks fifth in the world for passengers emplaned and sixth in the world for air cargo tonnage handled.²¹ Since large volumes of both people and cargo move through the Los Angeles airport system, it is an obvious target for terrorism. It is also a Point of Embarkation and a Point of Debarkation from which international travelers may arrive and depart the United States. Therefore, the airport system is a potential entry and exit point for international terrorists.

Los Angeles also has a complex rail system consisting of the Metrolink system. The Metropolitan Transportation Authority also is a major player in the transportation systems of Los Angeles. The rail systems in Los Angeles represent a potential target to hijackers, terrorists, and other criminals.

4. State/Federal Government Buildings

Numerous State and Federal Governmental buildings are in the Los Angeles area. As was the Federal Building in Oklahoma City, Oklahoma, any building that houses a department or government agency is at risk and is a potential target for not only international terrorists, but domestic terrorist events as well. Disruption of governmental agencies such as the Federal Reserve Bank Branch could have an economic impact on the local area and the nation as a whole if attacked.

²⁰ <http://www.losangelesalmanac.com/topics/Population/po04.htm>

²¹ <http://www.lawa.org/lax/laxframe.html>

5. Businesses/Recreational Facilities

Sporting arenas and private financial institutions and office buildings or any place where large numbers of people congregate to live, work and play are also potential targets for terrorist incidents. In Los Angeles, the Staple Center and the Rose Bowl represent two of these high visibility recreational facilities. The downtown area also is the home to numerous regional and national banks.

The people of the United States place a high premium on their personal freedoms and wish to live and work in relative peace. Securing these areas with minimum disruption to a person's normal life is a key function of domestic security.

E. HOW MUCH MONEY IS BEING SPENT AND WHERE

The geographic focus of the research is on the metropolitan areas of southern California and Nevada. The specific area focused on was the Los Angeles Metropolitan and surrounding areas, the Las Vegas Metropolitan area, and the San Diego Metropolitan area (See Figure 4). The decision to use this area was based upon the current budget issues within the state of California, the high population density, and the high threat of possible terrorist attack(s). Even though the initial market analysis will focus on Los Angeles, data was collected from the other southwest cities for future potential business phases of ASOC.

1. Data

The method used to collect data was through interviews, surveys, and statistical data. The interviews were conducted face-to-face and by telephone. The surveys were selectively e-mailed to numerous state and local police departments and law enforcement organizations in our target area. Surveys were also filled out by law enforcement senior officials during a seminar that they attended. (See Appendix A for sample surveys and summary survey results)

2. Local Police Department Data Collection

The research methodology for this marketing analysis of local police departments consisted of phone interviews and city SWAT budget information collection. The research team for the project conducted phone interviews with local SWAT officers in Los Angeles and with the Los Angeles, Las Vegas, and San Diego Police Department budget personnel. The interviews with the local SWAT officers focused on the organization of their SWAT teams, their training methods, and their knowledge of operating and training costs. The interviews with the police department finance offices considered the SWAT budgets and police department budgets.

The search for budget numbers from the police department budget offices revealed some interesting trends in visibility of budgeting information in police departments. First, not all of the police departments maintain concise visibility of SWAT funding and spending. While researching the budget numbers, only the Las Vegas Police Department provided concise, organized SWAT budget information. The Los Angeles budget office provided satisfactory budget numbers for this analysis but had to draw from numerous sources. These sources included the Metropolitan Division Budget, the Los Angeles Police Department (LAPD) budget office, and members of the Los Angeles SWAT team.

The San Diego SWAT numbers are difficult to determine because they “do not have their own budget independent of the [San Diego Police] Department budget”.²² Thus, this research team only accurately determined two usable budget statistics --the overall SWAT budget for San Diego SWAT and its percentage of the overall San Diego Police Department budget.

The interviews were primarily used with the large metropolitan area SWAT units and federal agencies to gain detailed operational and cost information. The surveys were primarily used with small law enforcement agencies to collect specific information that could be consolidated to get an understanding of the average data for these smaller units.

²² Personal Interview: LAPD Budget Officer

Statistical data found at various government websites and federal agency websites was also used in this study.

3. Federal Agency Data Collection

The research team conducted phone interviews with various public affairs officers, operation officers, and team leaders to extrapolate information concerning federal agency SWAT teams. These federal agency teams had different titles for their SWAT teams but each team had similar missions to traditional local SWAT teams.

The federal agencies were much more protective of their SWAT team organizations, missions, and budgets than the local police departments. Thus, the research team had to gather data from various sources including the internet, other interviews, and general knowledge. Comparison methods with local SWAT teams to determine approximate organization and budgets of the federal agency teams were also used.

F. LOCAL SWAT TEAMS – HOW MONEY IS BEING SPENT

Again, for this market analysis, the initial focus of ASOC will be the local SWAT teams within the Los Angeles metropolitan area. This metropolitan area consists of Los Angeles proper, Orange County, and San Bernardino – all of which are within the expanding sprawl of Los Angeles. The local SWAT teams in Los Angeles consist primarily of the LAPD SWAT team and the Los Angeles County Sheriff SWAT team. There are also numerous smaller SWAT teams in various cities throughout the Los Angeles metropolitan area.

1. Los Angeles Police Department and County Sheriff Department SWAT Teams

The Los Angeles Police Department budget office provided adequate information to determine their total annual cost. There was a requirement to extrapolate data, from various sources throughout the department. The primary cause for the difficulty in

determining the budget of the Los Angeles SWAT team was that the team falls under the Metropolitan department of the LAPD. Thus, many of their costs are not separated from their parent organization's budget. (See Appendix F)

In order to collect usable data, the budget office helped to sift through the numbers. They provided the annual salaries for the different grades of officers to determine personnel costs. They also provided the operating expenses for SWAT from their finance office. These operating expenses included an expense fund for equipment and range fees. During an interview with a SWAT team member, the number of vehicles on the team and the number of personnel by rank was reported, which allowed us to extrapolate the maintenance and personnel costs for their vehicles.

Several assumptions were used to determine the costs for Los Angeles SWAT. First, all of the start-up costs and sunk costs did not include the purchase price of vehicles and equipment in the annual costs of the team. Second, the Las Vegas SWAT maintenance costs on vehicles was taken and multiplied by two because the LAPD SWAT team is twice as large as Las Vegas SWAT. Third, a vehicle life of 5 years was assumed, which converts to the replacement of approximately 7 vehicles per year. At an estimated cost of \$40,000 per vehicle, ASOC determined an approximation of vehicle replacement costs, which was not covered in the annual equipment expense fund. (See Appendix F)

Based on these assumptions, it was determined that the total annual cost for the LAPD SWAT team is \$5,192,035. Because LAPD SWAT falls under the Metropolitan Department of the LAPD, a portion of its annual money is not traceable by the budget analysts. Therefore, the cost of the SWAT team is conservative. It is likely understated, which is acceptable for this market analysis.²³

The Los Angeles County Sheriff SWAT team is the other large SWAT organization in the Los Angeles area. Their team is considered comparable in size and capability to the LAPD SWAT Team. The Los Angeles County Sheriff SWAT team consists of 80 personnel with internal K-9 units and paramedics. Unlike other local

²³ Personal Interview: LAPD SWAT Member

SWAT teams, the Los Angeles County Sheriff SWAT team performs a wider array of missions and contracts SWAT services to over 41 different cities throughout Los Angeles County. Because of their similar size to LAPD SWAT, the approximated the annual cost for their team at \$5,000,000.²⁴

2. Smaller Los Angeles SWAT Teams

The small city SWAT costs were more difficult to estimate than the large city SWAT teams because there are numerous SWAT teams throughout the Los Angeles metropolitan region. Forty-five surveys were sent to police departments throughout the area and received back fourteen surveys. The research team was amazed at how many responding small police departments had internal SWAT teams. Most of these SWAT teams were every-day police officers with extra training, not full-time professional SWAT officers like the LAPD SWAT team. (See Appendix F)

The inconsistency of small city SWAT teams forced researchers to take the average costs of the SWAT teams using the surveys. It was determined the average annual cost per small city team was \$50,000. This value did not include the salaries of the officer's because most of them were not full-time SWAT officers. This value gives a decent approximation of the costs of the small city SWAT teams, but tends to be a conservative estimate. Thus, costs were likely understated, which is preferred to overstating the costs or biasing the market analysis.

The other variable that was used to determine these SWAT costs was the number of SWAT organizations in the Los Angeles area. It was determined that there were 30 smaller SWAT teams in the Los Angeles area from the United States Department of Justice Bureau of Justice Statistics.²⁵ (See Appendix C) By multiplying the number of SWAT teams by the average annual cost of the small city teams, it was conservatively calculated the total small city SWAT costs to be \$1,500,000 per year.

²⁴ Personal Interview: Los Angeles County Sheriff

²⁵ <http://www.ojp.usdoj.gov/bjs/pub/pdf/lem00lo.pdf>

3. Total Local Swat Costs in Los Angeles Area

The total local SWAT costs in the Los Angeles area are the sum of the LAPD SWAT team costs, the Los Angeles County Sheriff SWAT costs, and the 30 small-city SWAT teams in Los Angeles, Orange County, and San Bernardino. The total money being spent on local SWAT costs is \$11,692,035. This value represents the size of the potential local SWAT market in Los Angeles. (See Appendix B)

G. FEDERAL AGENCY SWAT TEAMS – HOW MONEY IS BEING SPENT

Unlike the local police SWAT teams, the Federal Agency SWAT teams are much more secretive of their organization and budgeting. Therefore, much of the local police SWAT budgets were used to approximate the agency budgets.

1. Federal Bureau of Investigation (FBI) Enhanced Teams

The FBI has a robust SWAT capability both at the federal and local levels. In the Los Angeles area, the FBI has their version of SWAT called an Enhanced Team. This team is regional and focuses on the West Coast. They also perform extraterritorial duties throughout the world. This team is very competent but still is a collateral duty for the FBI agents involved. The agents in the team spend approximately one-third of their time conducting SWAT missions. The Enhanced Team has 46 operators with a total of 60 members including electronic specialists, tactical operation center coordinators, and crisis negotiators. The Enhanced Team responds to federal violations including bank robberies, kidnappings, gang violence, drug incidents, and hijackings. They conduct 30 to 45 operations each year throughout the west coast. The Los Angeles team is considered the busiest Enhanced Team in the FBI.

The Enhanced Team budget is very similar to LAPD SWAT with the following annual operational and training budget: ammunition - \$40,000, supplemental funds -- \$30,000, and additional Los Angeles funds -- \$10,000. Using this operational and

training budget along with equipment and personnel costs similar to LAPD SWAT, it was approximated the FBI Los Angeles Enhancement Team annual costs were \$4,500,000.²⁶

2. Marshal Arrest Response Team

The Marshal Service's SWAT equivalent is an Arrest Response Team (ART). These ART teams are located in central and southern California with one located in Los Angeles. These teams consist of 12 to 15 people and use much of the same tactics and equipment as typical SWAT teams.²⁷ Based upon its size compared to Las Vegas and Los Angeles SWAT teams, we approximated the ART annual cost at \$1,000,000.

3. Alcohol, Tobacco, and Firearms SWAT

The Alcohol, Tobacco, and Firearms Agency (ATF) also have SWAT capabilities. Their Special Response Team is regional with its western team located in Los Angeles. These annual costs were approximated at \$1,000,000.²⁸

4. Coast Guard Maritime Safety and Security Team

The Coast Guard has a Maritime Safety and Security Team (MSST) in Los Angeles that performs SWAT duties throughout the region. Their primary mission is security for the Port of Los Angeles but they maintain flexibility to perform broader missions, primarily with anti-terrorist threats. The MSST has 107 members comprised of both active and reserve sailors. Within the MSST, there is a 20 member Non-Compliance Boarding Team that handles the high-risk threats. The MSST annual budget is \$1,400,000.²⁹

²⁶ Personal Interview: Los Angeles FBI Enhancement Commander

²⁷ Personal Interview: Arrest Response Team Public Affairs Officer

²⁸ Personal Interview: ATF Special Response Team Commander

²⁹ Personal Interview: MSST Budget Specialist

5. Immigration and Customs Enforcement Bureau Teams

The Immigration and Customs Enforcement Bureau also has SWAT capabilities with action teams. Annual costs in the Los Angeles area were approximated at \$1,000,000 due to the proximity to the Mexican border. It was assumed that they did not have as robust of a capability as LAPD SWAT.³⁰

6. Drug Enforcement Agency Mobile Enforcement Teams

The Drug Enforcement Agency (DEA) has SWAT capability in its Mobile Enforcement Teams. These teams focus on arresting high-risk drug traffickers. The research team assumed these Mobile Enforcement Teams to have similar capability, size, and equipment to the LAPD SWAT primarily due to the proximity to the Mexican border and the heavy methamphetamine lab activity in the region. Thus, it was approximated that the DEA's Mobile Enforcement Teams have an annual budget of \$4,500,000.³¹

7. Total Federal Agency SWAT Costs

The total money spent by the government on federal agency SWAT costs in the Los Angeles area is \$13,800,000. This amount includes all of the costs of the agencies discussed above and is an estimate of the size of the federal agency SWAT market in Los Angeles. (See Appendix B)

H. HOMELAND SECURITY GRANT MONEY

With the increasing role of the Department of Homeland Security (DHS), Congress has dramatically increased their annual budget to over \$30B in 2004. The DHS has offered this money to state and local governments to help them protect against various outside threats --primarily terrorism. DHS allows state and local governments to request grants and has designated money for various metropolitan areas such as Los Angeles. Two grant programs designate money for Los Angeles --the Urban Areas

³⁰ <http://www.ice.gov>

³¹ Personal Interview: DEA Public Affairs Officer

Security Initiative (UASI) and the Homeland Security Grant Program (HSGP). This money represents additional federal money that ASOC could resource in the SWAT market through the state and local government contracts.

1. Urban Areas Security Initiative

The FY 2004 UASI is a program intended “to create a sustainable national model program to enhance security and overall preparedness to prevent, respond to, and recover from acts of terrorism. This program will also provide funding to identified mass transit systems to enhance security at these critical infrastructure facilities.... Urban areas are encouraged to employ regional approaches to planning and preparedness and to adopt regional response structures whenever appropriate to meet the needs identified through the assessments and in the urban area strategy.”³² This initiative addresses similar goals as ASOC and is a potential source of revenue for the company.

The designated money for the city and county of Los Angeles is a grant award of \$28,268,504. The designated money for the city of Long Beach within Los Angeles is an additional \$12,136,091. The UASI also designates the awarding of money to the Los Angeles Transit Security Program. This program has \$1,982,809 designated for the Los Angeles Metrolink and \$800,000 for the Los Angeles County Metropolitan Transportation Authority. Thus, the total available Homeland Security funding through the UASI is \$43,187,404.³³ (See Appendix B)

2. Homeland Security Grant Program

The FY 2004 HSGP consists of three grant programs: State Homeland Security Program (SHSP), Law Enforcement Terrorism Prevention Program (LETPP), and Citizen Corps Program (CCP). The two grant programs that apply to the ASOC market are the SHSP and the LETPP.

³² http://www.ofp.usdoj.gov/odp/grants_programs.htm

³³ http://www.ofp.usdoj.gov/odp/grants_programs.htm

The 2004 SHSP “provides funds for homeland security...and for costs associated with implementing State Homeland Security Assessments and Strategies (SHSAS).”³⁴ The SHSP program allocated \$133,964,000 to California of which we assumed 25 percent to apply to the Los Angeles area. This adjusted allocation was \$33,491,000 of additional money to be considered in the Homeland Security available funds grant funds.³⁵

The 2004 LETPP provides law enforcement funding for prevention activities such as “intervention of terrorists before they can execute a threat.”³⁶ The LETPP allocation for California is \$39,752,000 of which we assumed 25 percent to apply to the Los Angeles area. This adjusted allocation was \$9,938,000. Thus, the total applicable HSGP money was \$43,429,000. (See Appendix B)

In the DHS overview for this grant program, it encourages the states to “employ regional approaches to planning and preparedness and to adopt regional response structures whenever appropriate.... Security and preparedness officials at all levels should seek opportunities to leverage funding from multiple sources whenever possible and not restrict their activities to federal funding alone.”³⁷ Therefore, the HSGP fits nicely with a potential ASOC market.

3. Total Homeland Security Grant Money Available

The total available grant funds from DHS including the UASI Grant Program and Transit Program and the HSGP are \$86,616,404. These DHS grant funds account for 77 percent of the available money in the SWAT market for the Los Angeles area. This Homeland Security funding changes each year but should stay relatively constant or increase in future years due to the expected longevity of the War on Terrorism and the increasing size and influence of DHS. (See Appendix B)

34 http://www.ojp.usdoj.gov/odp/grants_programs.htm

35 http://www.ojp.usdoj.gov/odp/grants_programs.htm

36 http://www.ojp.usdoj.gov/odp/grants_programs.htm

37 http://www.ojp.usdoj.gov/odp/grants_programs.htm

I. TOTAL AVAILABLE MONEY IN THE LOS ANGELES SWAT MARKET

Based upon the total costs of the local SWAT teams, the federal agency SWAT teams, and applicable Homeland Security Grant Money, the total available money in the Los Angeles SWAT market is \$112,108,439. This value represents a potential SWAT market in the Los Angeles area.

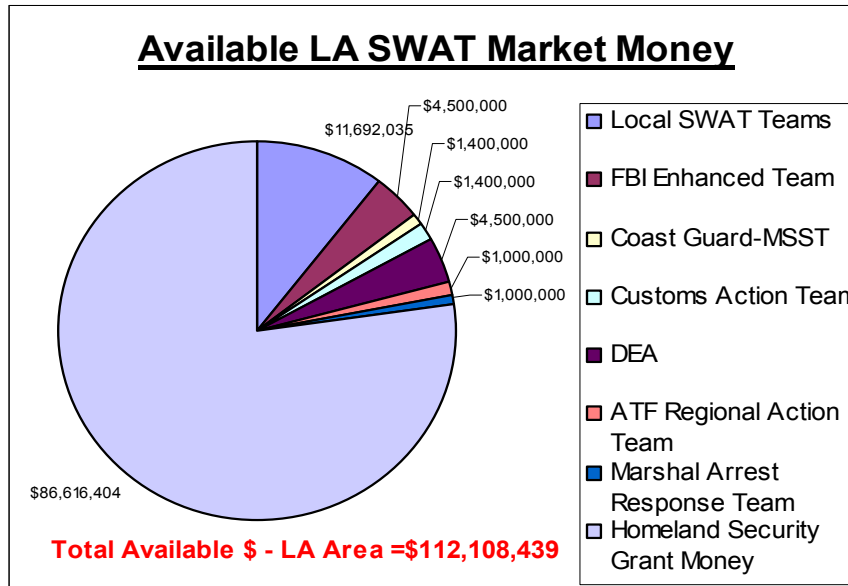


Figure 2. AVAILABLE SWAT MARKET MONEY

J. OVERLAPPING USES OF AVAILABLE MONEY IN THE LOS ANGELES SWAT MARKET

As discussed throughout this chapter, SWAT teams are pervasive throughout the local and federal law enforcement agencies in Los Angeles. This pervasive nature of the SWAT teams leads to possible redundancy both in Los Angeles' SWAT mission and spending. The reason for the redundancy is primarily due to the difficulty of coordinating the efforts of the various SWAT organizations and also due to the geographical size of the area. There are numerous examples of overlapping SWAT capabilities in Los Angeles.

1. Port of Los Angeles

The Port of Los Angeles located in Long Beach, CA aptly demonstrates the overlap of law enforcement and SWAT. Lieutenant Commander Mike Trevett of the Marine Security Office of Long Beach stated that there is definite overlap in the security of the port with no unity of command. He discussed the similar roles of the port police, the Marine Security Office, the Coast Guard Maritime and Security Team, the LAPD, and the Navy in securing the port. They all have arresting authority on the high seas and significant direct and indirect SWAT capabilities.

2. Local Police SWAT teams

As discussed above, there are 30 small city SWAT teams throughout Los Angeles. There also are the LAPD and Los Angeles County Sheriff SWAT teams that perform similar missions. These 32 local police SWAT teams definitely create redundancy in the Los Angeles SWAT capabilities. Even though Los Angeles and Orange County are spread over 4850 square miles (California is 163,696 square miles.), they still have approximately one local police SWAT team for every 87 square miles. This number of teams does not include the federal agencies.³⁸

3. Federal Agency SWAT Teams

As stated earlier in this chapter, there are various federal agencies that maintain SWAT equivalent teams in the Los Angeles area. These agencies include the FBI, the Federal Marshall Service, the ATF, the Coast Guard, the DEA, and Customs. All of these agencies believe their SWAT capability is necessary but all of them have similar broad missions with minor differences in focus.

All of the agencies view one of their missions as maritime interdiction even though the Coast Guard considers that their primary focus. The Marshalls focus on high-risk arrests whether on the water or land. The DEA focuses on maritime interdiction

³⁸ <http://arb.ca.gov/msei/on-road/briefs/Publication1.pdf>

when drugs are concerned. Customs also deals with maritime security primarily with illegal aliens and illegal shipping of goods. Even LAPD SWAT sometimes responds to these threats. Thus, there is redundancy in the maritime security mission between the federal agencies, which translates into redundant SWAT missions.

The same focus for land interdiction is true. All of the local and federal SWAT capabilities cater to land SWAT missions. Even the Coast Guard conducts land missions with its MSST team. Even though numerous SWAT teams are necessary for special situations such as terrorist attacks or police task force missions such as gang warfare, the myriad of various teams have redundant missions.

4. Total Money Spent on Overlapping Missions

ASOC assumes that the FBI Enhanced Team, LAPD SWAT, and Los Angeles County Sheriff’s Department SWAT missions overlap but remain necessary. The FBI Enhanced Team must respond to federal violations. The LAPD SWAT and Los Angeles County SWAT cover the local SWAT missions and combine forces in manpower intensive SWAT missions. Therefore, the remaining SWAT costs that overlap equal are \$10,800,000.

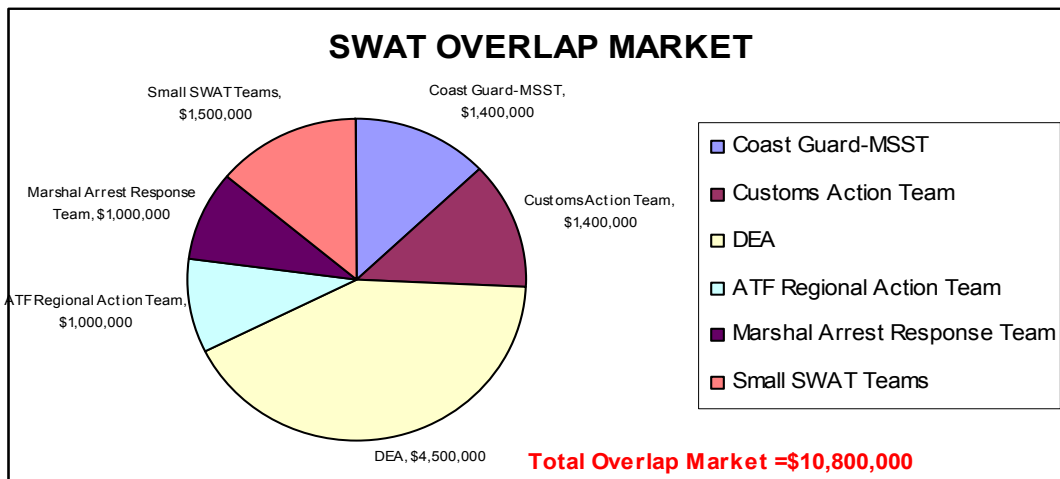


Figure 3. SWAT MARKET OVERLAP

K. MARKET ANALYSIS CONCLUSION

In conclusion, the Los Angeles SWAT market is substantial with a potential market of \$112,108,439. Taking into account potential overlapping SWAT funding, the initial redundant funds for SWAT missions in Los Angeles are \$10,800,000. This redundant SWAT market represents immediate business opportunities.

Another potential weakness in the SWAT market is a lack of coordination between the various SWAT organizations. The only element of the SWAT market attempting to fill this role is the Los Angeles County Sheriff's Department SWAT but they do not cover all the local police SWAT teams and federal agencies. Thus, the Los Angeles SWAT market is ripe with business opportunities for capable and competent security experts.

III. CAPABILITIES

A. NATIONAL NEEDS

As the War on Terrorism continues, America will be constantly under threat of attack. The misfortune of 9/11 was a direct result of the law enforcement and intelligent failure to foresee the attack. If a second attack were to occur, the public would be less likely to understand or tolerate the incident. President George W. Bush identified six critical mission areas in the “National Strategy for Homeland Security” issued in 2002. The six critical mission areas are:

1. Intelligence and Early Warning
2. Border and Transportation Security
3. Domestic Counterterrorism
4. Protecting Critical Infrastructure and Key Assets
5. Defending against Catastrophic Threats
6. Emergency Preparedness and Response

The ASOC SWAT Initiative is applicable to all of these critical mission areas. There have also been questions whether domestic law enforcement resources are up to the challenge of combating global terrorism and meeting all of its other responsibilities at the same time, or if it even should.³⁹

B. PHASES FOR MARKET ENTRY

ASOC intends to break its growth and development into three phases. In each phase, the company must realistically determine what services it is able to provide with the capital assets it can obtain. The phases are intended to build upon each other to be mutually supportive and provide a solid base for the final business structure that will

³⁹ <http://www.heritage.org/Research/HomelandDefense/HL791.cfm>

incorporate national and international strategies. A brief overview of these phases is described here with a more detailed description and list of capabilities presented in the rest of this chapter. The final part of this chapter will discuss projected assets that will be needed to provide the capabilities described in each of the phases.

During the implementation phase, or Phase 1, ASOC will act as a security consultation and coordination firm. ASOC will provide expert advice in matters concerning security operations for local law enforcement agencies. ASOC will also act as a central point of contact for the coordination of command and control operations for emergency response.

Phases 2 and 3 will introduce actual operating teams into the market environment. Phase 2 will stand up one team in California. Once that team is well established and the operating characteristics are evaluated and proven to be sound, Phase 3 will establish several teams to handle the southern half of California. Future growth projections will encompass covering the rest of the United States and then working into the potential international markets.

1. Phase 1

Phase 1 will focus on what the three existing members forming ASOC can accomplish with the resources at hand. All members are military officers with extensive background in military and leadership training. Backgrounds include extensive travel overseas with detailed knowledge of terrorist and criminal organizations. This experience is critical in knowing the training, tactics and procedures for these adversarial groups. These tactics are unfamiliar to most law enforcement agencies in the United States. They may have a hard time understanding the culture and motivations behind these organizations.

ASOC's members are also heavily experienced in working in joint operational environments that are chaotic and require heavy command and control and flexibility. This experience will transfer when working with numerous local, state and federal law enforcement agencies. ASOC also has the experience in motivating people to work

together as a team even if they come from different organizations and backgrounds. The ability to oversee political and competitive budgeting issues is an important step in coordinating the operational focus of local anti-terrorist groups. The following are the capabilities that ASOC can provide in Phase 1.

a. Red Cell

Red Cell teams are generally a group that plays an adversarial role to determine the strengths and weaknesses of an organization. This way the organization can realize its true vulnerability without the consequences that result from a real attack. ASOC members can play a critical role in assessing “Critical Infrastructure and Key Assets” of Los Angeles and surrounding areas. Through extensive area studies, the team members can determine the most likely or possible targets that terrorists may attack. By thinking like terrorists, these members can have insight into weaknesses in the city’s infrastructure.

Using this information, the city can assess what needs to be done to reduce the possibility of attack and make these targets harder to exploit. The Red Cell members will also gain useful insight into the city infrastructure and possible terrorist targets. They will learn detailed information needed for future operations against terrorists at these locations that could prove useful in Phase 2 and 3.

b. Special Event Security Consultation

In the event of special occasions that call for added security because of possible terrorist incidents, ASOC could provide the added measures required. High visibility events such as Presidential visits and international sporting events may require large amounts of security. ASOC could assess area security forces and personnel protection forces and make recommendations to ensure the best security possible.

This type of interaction will also facilitate numerous contacts and build confidence in ASOC that will help to implement Phase 2 and 3.

c. Maritime Ship Boarding Consulting

Since 9/11, even the Coast Guard has been looking to create its own SWAT team to combat terrorism. Faced with the growing possibility and concern toward the vast number of merchant vessels entering the United States that could allow terrorist threats to sneak into the country, the Coast Guard is proposing a budget to create a ship-boarding team to deal with hostile scenarios. One such team has already been created for New York Harbor.⁴⁰

In extremis ship boarding is a very dangerous task for forces trained in this area, and almost certainly will result in huge casualties for those untrained. ASOC has extensive knowledge in ship boarding tactics, techniques and procedures to ensure maximum success with minimum casualties. Being hired as consultants to help direct in the training of these forces could easily give ASOC another firm foothold with these units.

d. Coordination Consulting

One continuous resounding issue from the interviews and surveys conducted was the lack of local law enforcement coordination between different assets. Multi-jurisdictional SWAT teams are all but impossible due to political constraints and budgetary battles. Huge amounts of tax dollars are being wasted for substandard performance and overlapping SWAT coverage due to the way the system is set up.

ASOC could provide the middle ground as consultants hired to coordinate the various SWAT units in Los Angeles. If all the units used the same tactics, communication gear, and shared intelligence, then all their capabilities would grow exponentially. It is impossible however, to give one competitive unit the leadership role over the others to decide what will be done. As outside consultants, ASOC could make a fair and biased judgment about what the best standard of radios, operational gear and other equipment should be. It also could establish a state-of-the-art communication

⁴⁰ http://schumer.senate.gov/SchumerWebsite/pressroom/press_releases/PR02026.html

center that could coordinate between the various SWAT units during high-stress crisis situations and day-to-day training operations.

e. Grant Consulting

As explained earlier, the amount of federal grants being offered at the local law enforcement level is very large. Most local law enforcement agencies surveyed did not seem to have a grasp the current procedures and possibilities of these grants. As with most federal funding, much paperwork and expertise must be invested to obtain a fair share of the funding.

ASOC could provide a service to small local law enforcement agencies to help file and track these funds. It could provide the learned knowledge to all the agencies without each having to go through the time and learning curve involved in obtaining the funds individually.

2. PHASE 2

In Phase 2, all of the capabilities of Phase 1 will continue to be offered. However, ASOC will now use funds and cash flow obtained from Phase 1 to stand up one SWAT team in Los Angeles to provide additional capabilities. The tentative size of Phase 2 ASOC will be 26 employees. (See Appendix D) This team will train constantly to be at the highest level of readiness at a moments notice and strive to set a standard higher than other local area teams.

ASOC will use contacts and street credit obtained in Phase 1 to solicit the services of its team to augment local law enforcement capabilities. With an extensive working knowledge of all the different agencies in the area as well as the knowledge of existing capital constraints, it can market itself to the areas that most need it and have the funds to purchase its services.

a. *Emergency Response*

For domestic counterterrorism, the key is timely and accurate intelligence. Once intelligence is obtained, a counterterrorist unit needs to be employed. There are already several national counterterrorist units in the United States dedicated to act on such information. The most important product that ASOC's SWAT team can offer is a response that is faster and more knowledgeable on the local level than its national counterparts.

ASOC will also be able to provide a local expertise on the layout and infrastructure of their specific cities. Having a SWAT team that specifically trains on integration with the local law enforcement assets in their area is critical. This is something that national teams only do with the largest metropolitan areas. This team will not be in competition with Los Angeles SWAT, but directed more at an augmentation of smaller area SWAT teams and provide services in the Los Angeles area that the current teams do not provide.

In addition to augmentation of local SWAT teams, ASOC will target areas that have no SWAT coverage due to funding constraints. The ability of ASOC's team to cover multiple areas will make SWAT service cost effective for anyone. This service will be similar to the growing trend in new Florida suburban areas to outsource all the cities services. This keeps costs and taxes low by hiring others to run police, fire, emergency rescue, water, parks and recreation, zoning and other departments.⁴¹

b. *Special Event Security*

With this added SWAT team capability, ASOC could augment area security forces and personnel protection forces. Utilizing this added asset at their disposal would help increase police manpower and could prevent or reduce the threat posed at such events. These events also allow ASOC and their law enforcement counterparts an increased opportunity to work together and ensure smooth communications and interoperability.

⁴¹ <http://www.waterindustry.org/Water-Facts/florida-con-ops.htm>

c. High Risk Targets

Numerous high risk targets in the Los Angeles area are vulnerable to terrorist attack or exploitation. ASOC could provide security at these locations utilizing team members or contract to provide reaction teams to these specific facilities. This would allow the team to train to a specific location and have complete knowledge of how to attack or defend these facilities.

d. Networking through Social Capital

Social capital is the trust and goodwill developed by people, communities, corporations and nations. Networks need trust to work and when working, they generate trust. Networks tie together trust and reciprocity - the important factors of social capital.

When trust between people spreads, social capital is built. When this social capital spreads to new areas, new networks are created by reciprocity. “When I do something for you, I expect you to do something for me now or in the future. When you do something for me in return we have just formed a trusting relationship. As we build these bonds with others, we develop a network based on trust.” As this network continues to grow over time our trust becomes stronger.

During the current activities listed above, ASOC will begin to work closely with intelligence and information gathering assets. As these relationships build ASOC will begin to become a hub that intelligence can filter through. Due to political and budgetary conflicts, most intelligence sources do not share information. This is inherent due to the system that is currently in place where departments that get the credit for discovering more information get more money at the end of the year. This system, in essence, rewards information hoarding.

ASOC’s non-affiliation with any department should give credit to the proper source for any information it acts upon. This will create a relationship where departments that have information will pass it to ASOC to act upon because of trust. This will allow ASOC to increase its operations against terrorists and criminals and gain increased reputation as an operational unit.

As this dynamic grows, it will push ASOC into the center of an unofficial “intelligence network” where everyone is able to benefit and be more effective.

3. PHASE 3

Phase 3 will incorporate capabilities from Phase 1 and Phase 2 as well as expand on Phase 2 initiation of SWAT teams. ASOC will introduce as many new teams as needed to meet market demand in the Los Angeles - Las Vegas - San Diego area. The tentative size of Phase 3 ASOC will be 61 employees. (See Appendix E) Within this triangle of southern California, ASOC will create a network that is centralized to provide rapid response to any area. These teams will add the ability to expand the area covered for emergency response, special event security, personal protection and high risk target protection.

By adding helicopter assets, ASOC can minimize reaction time to one-hour during both day and night. They can accomplish this reaction time by having one SWAT team on a 24-hour standby at a centralized headquarters. Teams will rotate standby time with training and off-time cycles to ensure maximum proficiency from training and plenty of rest to stay sharp and focused.

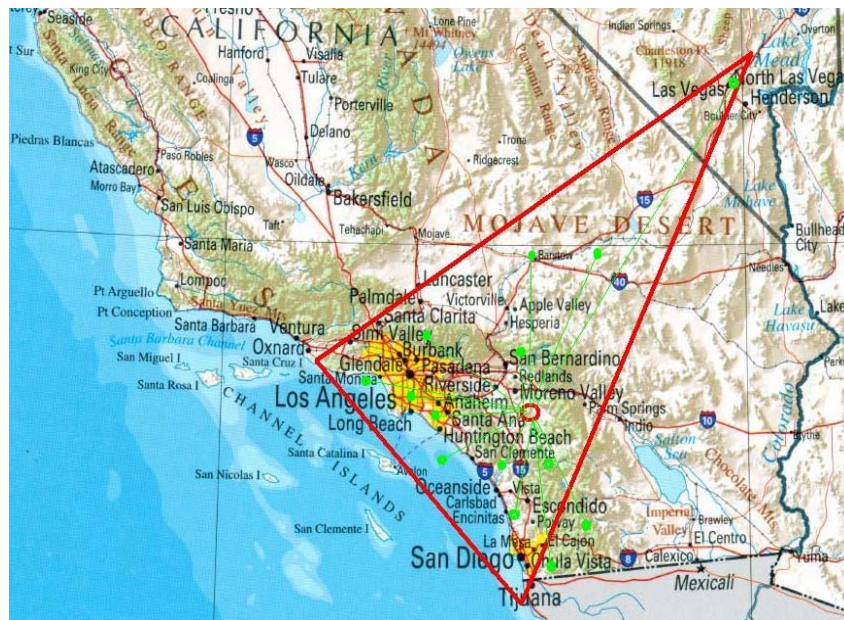


Figure 4. PHASE 3 TRIANGLE

a. *Maritime Ship Boarding*

With the vast number of ports and coastline, the Coast Guard is strapped for resources to cover all areas. The last thing the Coast Guard should be doing is taking personnel, money, and time away from their core competency. ASOC's close proximity to both Los Angeles and San Diego ports of entry creates an opportunity for authorities to utilize ASOC's Maritime Assault Team as an asset in hostile ship scenarios. This will allow the Coast Guard to focus its assets on the jobs that it does best and leave ASOC to train a mission specific assault team to handle any incidents along the specified coastline.

b. *Training Site*

Training is a continuous cycle to maintain peak readiness. The surveys of small local law enforcement show that these units get an average of four hours in training a week. This is insufficient to train for hostage-rescue, anti-terrorism operations and Weapons of Mass Destruction (WMD) scenarios. ASOC teams will train between 20 to 40 hours a week to achieve superior performance, efficiency, and effectiveness.

Combined integrated training with law enforcement officers in their cities is important to mission success and interoperability. It allows bonds between respondents as well as creating standard operating procedures and understandings. Law enforcement personnel will also travel to and train at the ASOC SWAT Headquarters which will be centrally located in the focus area. The Headquarters will have state of the art training facilities to include: numerous shooting ranges, mock urban training city, sniper tower, numerous close quarter battle sites, breaching area and areas for helicopter work. Helicopter work will entail fast-roping, rappelling, and shooting from the helicopters.

This site will be the primary training area for ASOC and will house all of its equipment and offices. Personnel on standby will also remain overnight at the facility to provide a rapid response team available to respond at a moments notice.

C. PERSONNEL

1. Current Law Enforcement Swat

One of the primary sources of recruiting for ASOC will be from current local law enforcement SWAT members. Recruiting from current members allows for a quick base competency of SWAT techniques, weapons and training. By hiring these local law enforcement members, there is already knowledge of legal responsibilities and issues. Hiring from local areas also increases the ease of future interoperability with local law enforcement and knowledge of the operational area.

2. Ex-Military Special Operations Forces

Hiring ex-military Special Operations Forces (SOF) will also give ASOC a base competence and knowledge of conducting anti-terrorist type missions. By hiring SOF, ASOC provides a working knowledge of terrorist tactics, methodologies and cultures. These forces have a better understanding of anti-terrorist tactics and techniques than local law enforcement SWAT team. The maritime SOF forces are also experts at ship-boarding operations and will provide extensive knowledge for creating this element of ASOC.

SOF is also more focused on direct assault and hostage rescue procedures where violence of action is required. The public law enforcement are more focused on arrests and drug operations as opposed to target assault and hostage rescue. The key advantage to using these former SWAT members and SOF together is that ASOC will get a cross pollination of understanding local laws and procedures combined with violence of action required in anti-terrorism.

D. EQUIPMENT

By utilizing one centralized SWAT team to provide the services listed above, ASOC is fiscally able to outfit its teams with superior assets. From the surveys, ASOC was able to determine that the small local SWAT teams lack critical assets that would be needed in a terrorist situation. Most teams rely on their police issue vehicles and

equipment to conduct such operations. These teams lack special infra-red, thermal and other optical equipment that may be a deciding factor in mission success. The list of equipment shortfalls for these units is extensive.

All of the proposed equipment for ASOC will not be listed in this project due to security concerns, but a breakdown of some of the larger assets are listed below. Again, with the proper superior equipment ASOC and its clients' are one step closer to ensuring themselves of mission success and mitigating mission failure. (See Appendix D & E)

1. Helicopters

ASOC will lease three BELL 430 Law Enforcement helicopters for operations and training. These helicopters provide superior lift capability and an eleven person capacity each. Most importantly, this air frame will allow prolonged operational support because the platform can stay airborne for 3.8 hours without refueling.

Helicopters will allow a quick response time to any location within the specified area. They can insert sniper teams onto rooftop positions and provide sniper-based platforms to maneuver around targets. Helicopters also provide additional real time intelligence and video capabilities as they happen. These assets can also provide vehicle and personnel tracking capabilities that can be crucial.



Figure 5. BELL 430 LAW ENFORCEMENT HELICOPTER

2. Armored Suburbans

Vehicles can also play a crucial role in target assaults. Helicopter operations may tip off terrorists that an assault is in progress before the assaulters can arrive. Vehicles are quieter and can provide extra protection until the last possible moment of entry into a target.

ASOC is planning on utilizing armored Suburbans to provide extra protection for assaulters and to also use during personnel protective details. Extensive instruction in combat driving will also be incorporated in the training cycle so that the full effectiveness of these vehicles can be utilized.



Figure 6. **ARMORED SUBURBAN**

E. WEAPONS

Proper weapons systems are also important to specific missions. ASOC will utilize various weapons systems depending on the operation. Some of the weapons systems that may be used include the Colt M4 Carbine which is a 5.56mm rifle that is light, dependable and highly accurate to provide firepower outside of buildings.



Figure 7. **COLT M4 CARBINE**

The Colt 9mm Submachine gun is smaller for better maneuverability indoors and provides the subsonic 9mm round that will decrease wall penetration in close combat operations.



Figure 8. **COLT 9MM SUBMACHINE GUN**

Secondary handguns will include 45cal rounds for increased stopping power.



Figure 9. **COLT 45 CALIBER PISTOL**

Sniper teams and breaching teams will carry weapons specific to the actions required. Sniper weapons are primarily determined using metrics of distance, surrounding area and results desired from the ballistic round.

F. FUTURE

The future desire of ASOC, after the California Initiative is proven, is to create a network of SWAT teams across the United States that will be interlocked and mutually supportive. The average number of ASOC locations needed for each state is projected at two. Competition is expected and will prevent ASOC from obtaining all of these contracts. Being first to market and having the corporate knowledge will benefit ASOC in its bids for these contracts. If ASOC can procure and maintain half of these contracts, it should expect to provide close to fifty locations nationwide.

After developing a nationwide presence, ASOC may look at the possibilities of overseas markets as a strategic target. However, the opportunity for growth and funding are currently highest in the southern California area. The possibility of success for ASOC is best in the California area with the capabilities listed above. Any future strategic movement into the national or international arena will have to be researched at the appropriate time.

IV. STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS ANALYSIS

A. BACKGROUND

The ASOC SWAT Initiative desires to provide Special Weapons and Tactics services to those communities that are impacted by both criminal and terrorist activities. As long as these activities exist, a need will exist for highly specialized and trained professionals capable of carrying out high-risk operations. The Privatized Military Industry (PMI) and private security companies presently occupy only a small niche in the industry that has been previously considered to be a public good. Due to the trend in governmental privatization and globalization of services, the possibilities for expansion and growth in this market are broad.

An analysis of the internal strengths and weaknesses of ASOC compared to the industry's opportunities and threats is called a SWOT analysis. This SWOT analysis will allow the visionaries of ASOC to determine if there is a fit between the private SWAT market and ASOC's potential strategy.

1. Environment

The overall market for the ASOC SWAT Initiative is new. While there are existing companies that provide private security services, there are few companies that perform the high risk operations and none that perform the specific missions of a SWAT team.

The market volume for the need of a privatized SWAT company would vary greatly depending upon population density, community wealth and other factors. The future projections of communities entering into contracts with a privatized security company cannot be determined with guaranteed accuracy. The reasons for possible hesitancy to embrace privatized SWAT are numerous and varied. For example, entrenched law enforcement agencies and union representatives would certainly balk at the possibility of losing jobs to a private firm. Also, community leaders and private

citizens may be resistant to having their security needs met by a company that is profit driven and whose span of control and responsibility is outlined in specific legal language.

2. Implementation

The services that ASOC intends to provide will be determined by the needs of the communities it serves. ASOC plans to use a 3-Phase business strategy to enter the private SWAT market. During the implementation phase, or Phase 1, ASOC will act as a security consultation and coordination firm. ASOC will provide expert advice in matters concerning security operations for local law enforcement agencies. ASOC will also act as a central point of contact for the coordination of command and control operations for emergency response.

Phases 2 and 3 will introduce actual operating teams into the market environment. Phase 2 will stand up one team in the Los Angeles region. Once that team is well established and the operating characteristics are evaluated and proven to be sound, Phase 3 with full-scale regional deployment will commence.

An analysis of the strengths, weaknesses, opportunities and threats during each of the phases will help ASOC management focus on information that will match the firm's resources and capabilities to the competitive environments in which the firm will be operating during the three-phase implementation plan.

B. STRENGTHS

1. Phase 1 – Consulting and Coordination

a. Management/Command and Control Skills

Military professional officers are heavily trained in management techniques. ASOC's initial management team will consist of three military officers each having a diverse and unique background rich in management and command and control skills. One of the members has command experience in military units ranging from 15 to more than 400 soldiers. This ability to coordinate personnel and equipment in high-

intensity combat situations will translate directly to ASOC's mission of coordinating multi-dimensional SWAT units in volatile situations.

b. Special Warfare Training

ASOC's initial management team will also have a member that has Special Warfare training. As a Navy SEAL, the member will bring a unique sense of credibility to the firm as well as a plethora of knowledge in anti-terror and special mission tactics.

2. Phases 2 And 3 - Operations

a. Full-Time On-Call Swat Capability

ASOC will have the ability to provide municipalities with full-time on-call SWAT capability. With units on 24 hour standby and the availability of air assets, ASOC's average response time will be one hour. From the surveys, we determined that this response time is the same average response time for local law enforcement units.

b. Specialization

The current trend in many police departments across the United States is to organize and train select officers for Special Weapons and Tactics response. Most of these teams are constructed from police officers and sheriff's deputies that are only available to train on a part-time basis. This mixed conglomerate of police officers that perform SWAT missions rarely train, which leads to the sub-optimization of those teams. An increase in the potential risks to the officers, innocent civilians, and hostages during times of crisis will reduce the chances of a successful outcome for any mission. This situation leaves officers in the unenviable position of skill atrophy when called upon to perform a SWAT mission.

ASOC will combat skill atrophy by continuous training and mission focus. ASOC can provide dedicated, mission specific operating teams that will reduce the risk to

officers, civilians and hostages through mission specialization. It will maintain its own internal training program and training facilities leading to ease in conducting daily training.

c. Standardization

Standardized operating procedures will reduce variability in the outcome of the mission at hand, which will further reduce risk. ASOC will be able to provide expertise in their geographic areas of cognizance. ASOC SWAT teams will train specifically on integration with local law enforcement to ensure maximum interoperability. The ASOC procedures and policies will be established using a mix of the best local law enforcement established procedures and integrated military tactics and techniques. Using a private company to negotiate these procedures may eliminate problems of political agendas as described in the surveys.

d. New Communications Procedures

Recent balked attempts at hostage rescue such as the stand-off at Columbine High School can be contributed to failures in communication between different elements of law enforcement.⁴² With the advent of new communications technology, the ASOC SWAT Initiative could provide the impetus to introduce new communications standards and practices throughout the law enforcement and emergency response communities. The Phase 1 coordination team will provide the basis for this integrated communication system and should have worked through the communication challenges encountered in the municipal and regional law enforcement arenas.

e. Reduced Costs

The financial chapter shows the cost-effectiveness analysis of the current method of providing SWAT capabilities compared to the ASOC SWAT Teams. This

⁴² <http://montrose.org/org/citizens/may26report.htm>

analysis determined that ASOC will be able to provide maximum protection and capabilities in both urban and rural areas at a greatly reduced cost to tax payers.

Major metropolitan areas will discover a major cost savings in reduced labor, capital and infrastructure costs when they employ ASOC. Urban areas will be provided the same level of protection that the large metropolitan areas will have at a cost that is proportionate to their size and affordability. This economy of scale can only be realized through the ASOC Initiative.

C. WEAKNESSES

1. Phase 1 – Consulting and Coordination

a. Minimal Law Enforcement Experience

Law enforcement experience is necessary to gain credence not only with the law enforcement agencies that ASOC will be working with, but also gaining credibility with the local public. Having a trained warfare specialist on the staff during the first phase will allay most of the fears and concerns of both law enforcement agencies and the public. During later phases, law enforcement experience should not be an issue as ASOC will actively recruit top law enforcement officers.

b. Local Politics, Geography and Culture

Entrenched law enforcement agencies and union representatives would certainly balk at the idea of losing jobs to a private firm. Community leaders and private citizens may be resistant to having their security needs met by a company that is profit driven and whose span of control and responsibility is outlined in specific legal language. Also, America's awareness of domestic security issues is at an all-time high due to the media blitz surrounding the attacks on the Federal Building in Oklahoma City and the events that occurred on September 11, 2001.

Overcoming the culture that has been instilled in both the local population and law enforcement agencies concerning the level of service and the expectations of public services will play an important role in the initial success of the firm. The current

lack of knowledge with regard to the demographics and distribution of crime in certain geographical areas will only be overcome with time, experience, and further study.

2. Phases 2 And 3 - Operations

a. Additional Level of Coordination

The current multi-tiered structure of law enforcement produces a set of challenges that are not easily overcome. Determining command and control in crisis situations will likely cause conflict and confusion. As has been noted previously, there is also a distinct lack of communications standards and practices among agencies. Often, there are miscommunications between agencies as to the overall commander's intent that can result in catastrophic miscues. The employment of ASOC will introduce an additional level of interagency coordination in times of crisis but will require serious contributions of ASOC financial and operational resources.

b. Legal Issues

Since 9/11, there have been many changes to the legal structure of law enforcement particularly with the formation of the Department of Homeland Security. Many of the details and ramifications of these changes have not yet been fully developed or explored. The legality of an operation such as ASOC may be in question. However, there are already several instances of private security firms performing operations that were once accomplished by public sector employees. For example, the security company, Wackenhut, provides private SWAT teams that protect nuclear weapons facilities in Nevada and South Carolina.⁴³

⁴³ Singer, P. (2003). *Corporate Warriors: The Rise of the Privatized Military Industry*. NY: Cornell University Press.

c. Jurisdiction

Jurisdictional issues will also come into play during many of ASOC's operations. As with the current law enforcement structure, the nature of the operation often dictates just who has authority to conduct the operation. It is not yet certain if ASOC will be given operational control during an incident, or if the company will be subjugated to a subordinate role. The conditions laid out in the contract with a municipality will have to cover these jurisdictional issues in accordance with local, state and federal laws.

d. Lack of Critical Infrastructure

As with any new start-up company, there is no critical infrastructure yet in place. Site selection for the different headquarters' locations will have to be carefully considered in order to achieve the operational goals and vision of the company. Ample space for training facilities, berthing for the on-duty officers, and access to an airfield or helipad will influence these critical decisions.

e. Cash Flow and Capital Investment

Initial cash flow for the company will also be an issue. With the proposed size of a team to cover Los Angeles in Phase 2 requiring 25 team members, contracts must be sufficient to cover salaries, supplies, and equipment. Covering Southern California and Nevada in Phase 3 will require approximately sixty team members and more extensive equipment. Regional contract and capital investment requirements must be sufficient to cover these more extensive operating costs. ASOC must differentiate itself from competitors, which will require higher salaries to attract talent and asset investment in cutting edge technology such as armored vehicles, the newest weapons, and helicopter capabilities.

D. OPPORTUNITIES

1. Phase 1 – Consulting and Coordination

a. Few Competitors

Currently, there are very few competitors in this new market. However, in the future, a successful company will entice other firms to join the industry. Expansion begets expansion until market saturation is achieved. The maturation of the industry in the United States will likely occur when full coverage of the United States has been achieved. The international industry will continue to fluctuate depending on supply and demand. Interest will be created throughout state and local communities with each successful operation conducted.

b. Grant Funds Available

Federal funds will play a key role in the funding of cities to be able to afford ASOC. ASOC will focus on educating municipal and state decision makers of these Department of Homeland Security Grants. To take full advantage of this potential revenue source, ASOC will establish administrative grant experts to complete the paperwork for governments at all levels. ASOC will also send marketing teams to potential clients to sell the product by advertising this availability of grant resources. The desired end-state would be that Department of Homeland Security decision makers would require local and state governments to utilize ASOC in regards to the Federal anti-terrorism grants.

c. Low Start-Up Costs

During the first phase of deployment, total start-up costs will be very low. For a start-up consulting firm, all that will be needed is office space, office equipment, and clients. The only labor costs incurred during Phase 1 will be the salaries of the three employees that will be a part of the management team.

d. Trend toward Privatization and Outsourcing

Changes in the nature of terrorist threats and security related issues coupled with the current wave of privatization and outsourcing of services will play a large role in maintaining the health of this industry.⁴⁴ Advances in communications technologies and weapons systems will enable the private security companies to play a significant role in the future of crisis operations. Communities affected by the constant threat of terrorist activities will become aware of current law enforcement agencies' limited ability to provide this critical service. The continued reduction of Federal, State and local budgets will place pressure on community leaders to seek the best possible solution to meet the growing security threat. Therefore, the opportunity for a private security company to operate within the U. S. is real, and the continuing "trend towards worldwide privatization seems to indicate that the marketing of military services will continue to be a growth industry for the foreseeable future."⁴⁵

2. Phases 2 and 3 - Operations

a. Need for Swat Capabilities beyond Major Cities

Most major United States cities and major metropolitan areas already have established organic SWAT capabilities. However, with the on-going war on terrorism, all of America is under the potential threat of terrorist attack. Therefore, an immediate need for a networked organization that can provide emergency response, anti-terrorist response, special event security and maritime ship boarding exists. Special response units are no longer the purview of densely populated areas. ASOC is in the position to meet the needs of many domestic contingencies.

44 Singer, P. (2003). *Corporate Warriors: The Rise of the Privatized Military Industry*. NY: Cornell University Press.

45 <http://www.accord.org.za/publications/ct6/issue6/issue6.htm>

b. Reduction of Sub-Optimization

Many SWAT teams throughout the United States are still made up of officers from different police departments that come together occasionally to train. This leads to sub-optimization of existing law enforcement teams and creates the need for a network of centralized, highly specialized SWAT teams whose sole mission is to train and conduct SWAT operations. ASOC teams will create optimal solutions for domestic requirements.

c. Trend toward Privatization to Reduce the Size of Government

Since the early 1950s when President Harry Truman proclaimed, “it is the policy of the Government of the United States to rely on commercial sources to supply the products and services the government needs... [the government] shall not start or carry on any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source”⁴⁶ Privatization has been one of the many areas of focus to reduce the overall size of government.

It has become evident that privatization has lead to the better use of government resources. It also fosters innovation and allows the government to utilize personnel and skills that are not easily obtained in the public sector. Many state governments and municipalities are also learning that this trend results in the better use of scarce budgetary dollars and have begun to outsource many of their core responsibilities.⁴⁷ It is only natural that this trend extends towards the privatization of law enforcement responsibilities. ASOC has identified a market to capitalize upon this wave of privatization and outsourcing.

⁴⁶ <http://www.rppi.org/competitivesourcing.pdf>

⁴⁷ <http://www.rppi.org/competitivesourcing.pdf>

d. Capital Being Pushed to Local Level for Anti-Terrorism and Emergency Response

After President George W. Bush created the Department of Homeland Defense in 2002, Congress began appropriating funds that were to be used at the state and local government levels to meet increased security concerns.

The Office for Domestic Preparedness Funds are awarded to and distributed through the State Administrative Agency designated by the Governor of each state.⁴⁸ Total funding provided through the Office for Domestic Preparedness Funds alone this award cycle is \$2.2 billion. California was the largest recipient with a total of \$176,499,000.⁴⁹ The ASOC Network would help to efficiently utilize those funds designated as terrorism prevention.

e. Continued Terror Incidents Overseas and Increased Concerns in the United States

In his speech to the Smithsonian Associates in February 2000, John C. Gannon, Chairman of the National Intelligence Council stated, "Globalization will provide mankind with the unprecedented opportunity to improve the quality of human life across the planet; but progress will be hampered by economic volatility, by the political and security implications of sharpening inequalities in income, and by the growing threat from multiple, relatively small-scale programs of weapons of mass destruction." He also concluded that terrorists will pose a much greater threat to United States Security than they had in the past.⁵⁰

The fact that terrorist incidents have been on the rise throughout the world and are likely to continue creates an opportunity for private companies such as ASOC to participate in the domestic defense of the United States.

48 http://www.ojp.usdoj.gov/odp/grants_programs.htm

49 http://www.ojp.usdoj.gov/odp/docs/fy04hsgp_appkit.pdf

50 http://www.cia.gov/terrorism/pub_statements_cbrn.html

f. Establishment of a Concurrent Overseas Network

Once a foothold has been established in the local and regional domestic market for homeland defense and other related security issues, the next logical step would call for expansion. As a potential going concern, the ASOC Initiative has room to grow in the national and international market for anti-terrorism protection. Small, flexible and mobile teams could be easily dispatched for small and large-scale protection details. As in the current PMI, ASOC could provide training in SWAT tactics abroad as well as serving as a consulting service for foreign governments.

E. THREATS

1. Phase 1 – Consulting and Coordination

a. Government Competition

Competition from other government agencies could stifle the ASOC SWAT Initiative. With the growing emphasis on homeland security needs, government agencies that are currently responsible for the coordination of law enforcement activities could increase the size of their foothold and push out any unwanted competitors.

b. Local Politics

Local politics may also be a threat to the newly-formed ASOC. Civil leaders may be reluctant to turn over control of coordination activities especially for a volatile issue such as security. Local police unions may lobby against the ASOC Initiative based on a misunderstood perception of job threats.

c. Grant Funds

Grants are available for homeland defense companies to cover start-up and sustainment costs. However, the actions required to secure these funds are not clear at this time and may take considerable effort to obtain. Ensuring that all requirements are met to receive the funds may be an obstacle.

2. Phases 2 and 3 - Operations

a. Public Perception

Among the possible threats to the ASOC Initiative is the public's perception of civilians performing operations normally performed by government and other officials. However, there already is a concern that para-militarization of law enforcement officers may send the wrong message to the public about direction of law enforcement.⁵¹ Aggressive advertisement to diminish public concern may be necessary. ASOC will need to focus on marketing a positive image of its role in society to the general population.

b. Competition from Established Companies

PMI companies that already have established contracts for providing security internationally have several distinct advantages over ASOC. The main advantage is prior experience and name recognition. These companies have taken advantage of the contingency market available to them to reap huge amounts of revenue in a short period of time.⁵² The low barriers to entry and exit into these markets have made it a lucrative industry in the past and may continue to grow in the future. Due to the large revenues generated by overseas contracts, the PMI's have access to an already existing stream of cash flow that, combined with brand recognition, would allow them to compete heavily against ASOC for SWAT Initiative contracts and federal grant money.

c. Competition from Existing Swat Teams

There will also be heavy competition and resistance from departments with existing SWAT Teams. From the survey, we saw a split in the departments that would even consider having a multi-jurisdictional team. Cities with existing infrastructure have millions of dollars invested in their SWAT Teams and law enforcement departments. While economically, these investments are considered sunk

⁵¹ <http://www.mapinc.org/drugnews/v97/n673/a02.html>

⁵² Singer, P. (2003). *Corporate Warriors: The Rise of the Privatized Military Industry*. NY: Cornell University Press.

costs and should be irrelevant to any future economic decisions, the comfort level of protection provided will be hard to overcome in civic leaders and the populace at large.

Jobs will be at stake and organized union resistance will surely follow any call to privatize such a critical function of law enforcement. Many city managers and other leader would rather stay with a known quantity than to try an unknown. If ASOC or any other firm in the industry were to fail to meet its contractual obligations, the city would be forced to quickly reassemble its previous infrastructure, which could cost them not only political influence, but large dollar amounts from their cities' budgets.

d. Quantity of Work Will Vary

The overall quantity of work requiring SWAT involvement will vary depending on crime characteristics of individual communities. Different areas of the country will inherently have different amounts of SWAT needs. Municipalities may not wish to invest the money required to perform a cost/benefit analysis of switching to ASOC provided SWAT services when they feel that their current law enforcement organizations' level of protection is sufficient to meet their security needs.

e. Principal-Agent Problem

Combining operations of a private organization, which is driven by profitability, with a public organization, which is driven by operational capability, may result in the classic principal-agent problem. Civic leaders, as well as the public, have certain ideas as to how, when, where and why resources should be utilized. A public good, such as security protection, must be treated as both non-rivalrous and non-excludable, meaning that everyone has the right to use these services. Services should not be hoarded by the highest bidder. However, in the privatized security industry, this perception has the potential to be pervasive.

F. CONCLUSION

The purpose of this SWOT analysis was to provide an assessment of the fit between the private SWAT market and ASOC. As discussed, ASOC has many internal strengths and weaknesses. Its strengths, though, outweigh these weaknesses. These strengths consist of substantial savings in both opportunity and financial costs for local and state governments. They also involve the ability to focus and coordinate SWAT activities.

Though the potential weaknesses in a private SWAT company are plentiful, ASOC has a plan to counter the weaknesses during each phase. During the Phase 1 consulting focus, ASOC can build the necessary relationships and experience levels to counter the Phase 2 and 3 politics, marketing, legal, infrastructure, and financial weaknesses.

The opportunities for a private SWAT company are also numerous and far outweigh the threats. The threats discussed above are real but can be countered with aggressive marketing campaigns and in-depth planning. The pivotal strategy to enter the market first will allow ASOC to seize the initiative and counter many of the competition threats.

Just as Phase 1 prepares ASOC to deal with its potential Phase 2 and 3 weaknesses in its internal strength and weakness analysis, the same concept applies to the outside opportunity and threat analysis. By entering the market as a consulting firm, ASOC can learn to seize the opportunities and counter the threats imposed on the SWAT operational second and third phases. By learning the SWAT business and developing key relationships with SWAT stakeholders in law enforcement and local and state governments, ASOC will have the necessary knowledge to understand the politics and financial intricacies before it invests in substantial SWAT operational assets.

Therefore, based upon this SWOT analysis, this team has determined that there is an excellent fit between the emerging private SWAT market and all three phases of ASOC's business strategy.

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V. COST EFFECTIVENESS ANALYSIS

A. SCOPE AND OBJECTIVES

A cost effectiveness analysis is a quantifiable method to determine if ASOC can run its business cheaper than the various SWAT organizations in Los Angeles. This cost effectiveness analysis will include a description of a cost effectiveness model from an academic viewpoint. This description of the cost-benefit model will discuss cost-benefit analysis, present value, and cost-effectiveness analysis.

The cost effectiveness discussion will then shift to comparing the costs of the ASOC SWAT Initiative to the overall costs of its competitors. This comparison will first address Phase 1 of the ASOC Initiative – the entry consulting communication firm. It will then address Phase 2 – an ASOC SWAT team that provides first response contracts to high-risk facilities and events. It will compare these teams to local Los Angeles and federal agency SWAT teams not including LAPD SWAT, Los Angeles County Sheriff's SWAT, or the Los Angeles FBI Enhancement Team because ASOC does not foresee replacing these entrenched SWAT organizations. Lastly, it will compare the costs of the ASOC SWAT Initiative Phase 3 and the local SWAT teams throughout the Los Angeles - Las Vegas - San Diego triangle. The cost comparison will focus on the fiscal and opportunity costs but will also consider intangible costs. Although the intangible costs are difficult to quantify, they are important to consider when comparing government and privatized SWAT services.

This cost effectiveness analysis will close with the final results of the cost effectiveness comparison and the implications of the final result. This final result will let the reader know if the ASOC SWAT Initiative can accomplish its mission cheaper than the public SWAT teams and how much cheaper. It will also provide a valuable quantifiable resource to share with potential investors and with banks when applying for business loans. The implications of this analysis are far-reaching for municipal police department budgets, Department of Homeland Security contracting, federal agency SWAT teams, and United States taxpayers.

B. COST-EFFECTIVENESS ANALYSIS MODEL

An effective method to determine if a project is worthwhile is to conduct a cost-benefit analysis of the project. According to Harvey S. Rosen, a Princeton Economics Professor currently working as an economic advisor to President Bush, a cost-benefit analysis is “a set of systematic procedures for valuing...commodities, which allows policy analysts to determine whether a project is, on balance, beneficial.”⁵³

When comparing two mutually exclusive projects, there are three generally accepted methods of comparison. They are the present value comparison, the internal rate of return, and the cost/benefit ratio.

1. Present Value

The present value method compares different costs and benefits from different time periods. It compares these values using present values. It allows comparison of fiscal values from different years by converting the values into a certain year's dollars taking into account the projected interest that could be earned on these dollars. This comparison can either be with dollars from the past or dollars in the future. The formula to determine a present value of dollars is:

$$PV = R_0 + \frac{R_1}{(1+r)^1} + \frac{R_2}{(1+r)^2} + \dots + \frac{R_t}{(1+r)^t} \quad 54$$

When comparing values from two mutually exclusive projects, the value with the higher present value is the better choice.

2. Internal Rate of Return and Cost-Benefit Ratio

The other two methods of comparison in cost-benefit analysis are internal rate of return and the cost/benefit ratio. “The internal rate of return is the discount rate that would make the present value of the project just equal to zero.”⁵⁵ Thus, the internal rate

⁵³ Rosen, Harvey S. (2004) Public Finance (6th ed.). Boston: McGraw-Hill.

⁵⁴ Rosen, Harvey S. (2004) Public Finance (6th ed.). Boston: McGraw-Hill.

⁵⁵ Rosen, Harvey S. (2004) Public Finance (6th ed.). Boston: McGraw-Hill.

of return gives a point of comparison between two projects. The benefit/cost ratio compares the benefits to the costs of a project by analyzing their ratio. A ratio of greater than 1 means the project is worthwhile.

The problem with these two cost-benefit methods is that they create problems when comparing two different projects. The internal rate of return and the benefit/cost ratio create problems when two different projects have different scales. The benefit/cost ratio also is not the best method to use because an analyst can easily manipulate it using negative costs and benefits. As Rosen states, “We conclude that the internal rate of return and the benefit-cost ratio can lead to incorrect inferences. The present value criterion is the most reliable guide.”⁵⁶

Therefore, because the present value method is not affected by scale problems and cannot be manipulated, this research team will use this method for analysis of ASOC SWAT Initiative and local SWAT organizations.

3. Discount Rate

The research team for this project needed to set a discount rate to use in calculating the present value for both projects. A discount rate takes into account the time-value of money. “A dollar in the future is worth less than a dollar today and must be “discounted” by an amount that depends on the interest rate and when the money is receivable.”⁵⁷ Thus, for this project, the team used a discount rate of 1.6 percent for present value calculations, primarily to calculate the cost of the Las Vegas SWAT team over 3 years. They determined this discount rate using the Office of Management and Budget’s 3-year recommended real interest rates on treasury notes and bonds of specified maturities.⁵⁸

⁵⁶ Rosen, Harvey S. (2004) *Public Finance* (6th ed.). Boston: McGraw-Hill.

⁵⁷ Rosen, Harvey S. (2004) *Public Finance* (6th ed.). Boston: McGraw-Hill.

⁵⁸ http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html

C. COST-EFFECTIVENESS ANALYSIS

At times, a comparison of projects does not perfectly fit the benefit-cost analysis model. If two projects have either “the same annual benefits expressed in monetary terms” or have “the same annual benefits, but dollar benefits values cannot be assigned to their benefits”, then an analyst can use a cost-effectiveness analysis.⁵⁹ Because of the inaccuracy of assigning dollar values to the benefits of both the ASOC SWAT Initiative and local SWAT teams, the research team will assume that the monetary values of the benefits of the two alternatives are approximately equal. Thus, they will conduct a cost-effectiveness analysis by comparing the present values of the costs of the two alternatives.

D. COSTS

This cost effectiveness analysis will begin with an in-depth look at the total costs of ASOC and government SWAT teams. It will then compare the present values of these costs to determine which organization contributes the greatest net benefit to society.

E. GOVERNMENT SWAT COSTS

1. Phase 1 – Los Angeles Swat Coordination Companies

ASOC will not compare the costs of its initial entry consulting coordination business because there is no comparable competitor in the Los Angeles area. As stated earlier, the closest competitor is the Los Angeles Terrorism Early Warning Group, and this group consists mainly of representatives from the various SWAT units. Thus, the costs associated with this Warning Group are already included in the costs of the SWAT teams.

2. Phase 2 – Los Angeles Local and Federal Agency Overlap SWAT Teams

As discussed in the marketing analysis, the total cost of the overlap SWAT teams in the Los Angeles area that ASOC aims to replace is \$10,800,000.

⁵⁹ http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html

3. Phase 3 - Regional Government Swat Teams

The research team organized the regional government SWAT teams into 3 metropolitan areas – Las Vegas, Los Angeles, and San Diego.

a. Las Vegas

The budget office from the Las Vegas budget office provided a detailed breakdown of the costs for the city SWAT team. They included three years of budget information - 2002-2003, 2003-2004, and 2004-2005. Their budget information included their total direct costs. These total direct costs consisted of supply/service request money, capital requests, and salary/benefits for the team. (See Appendix G)

To translate the total direct costs to usable data, the team converted the past year costs to 2004 dollars using a discount rate of 1.6 percent. They then took the average of the three years' costs. The final annual total cost for the Las Vegas SWAT team was \$4,924,638. (See Appendix F)

b. Los Angeles

As discussed in the marketing analysis, the total cost of the overlap SWAT teams in the Los Angeles area that ASOC is aiming to replace is \$10,800,000.

c. San Diego

The San Diego Police Department budget office provided limited information concerning the San Diego SWAT Team. Based on an interview with one of the budget analysts, the San Diego SWAT team does “not have their own budget independent of the [overall Police] Department budget.”⁶⁰ The budget analyst said that “this allow[s] the flexibility to address all critical needs” in the overall police department. She did share that SWAT receives .72 percent of the 2005 San Diego Police Department budget. Thus, the research team used this figure as the basis for the total cost of the San

⁶⁰ Personal Interview: LAPD Budget Officer

Diego SWAT team. The overall police department budget for FY 2005 is \$309,804,199. By multiplying this number by .72 percent, ASOC determined the total cost of the San Diego SWAT team to be \$2,230,590. (See Appendix F)

F. TOTAL REGIONAL GOVERNMENT ANNUAL SWAT COSTS

The total SWAT costs for Los Angeles, Las Vegas, and San Diego is \$17,955,228. ASOC's team will use this value as the present value of these costs. This analysis will compare this value to the costs of the third phase ASOC SWAT Initiative.

G. ASOC SWAT INITIATIVE

The analysis of the costs for ASOC consists of three categories. The first is the salaries of the employees. The second is the capital costs. The third is supplies and services costs.

1. Phase 1 – ASOC Consulting Coordination Firm Costs

The start-up costs for the Phase 1 ASOC Consulting Coordination Firm are minimal. This firm requires only 3 personnel. The only other costs consist of the conservative operating overhead and the initial investment for the communication equipment.

a. Salaries of the Employees

The three employees will receive an initial salary of \$100,000. Thus, the total salary costs will be \$300,000.

b. Capital Costs

The initial capital costs will be minimal. The employees will use their personal vehicles, their personal weapons, and their own gear. The only substantial costs will be the communication equipment for coordinating Los Angeles SWAT teams. This initial start-up cost for communication gear is estimated to cost \$250,000.

c. Supply and Service Costs

The supply service costs consist primarily of setting-up and running an office. The initial start-up cost will be \$20,000 in office equipment. The monthly rental cost will be \$3000 for a small office in Los Angeles. Thus, the supply service costs for the year will equal \$56,000.

d. Total Phase 1 Start-Up Costs

The total costs for the first year of Phase 1 are \$606,000 for ASOC.

2. Phase 2 – ASOC First Response High-Risk Facility Swat Costs

a. Salaries of the Employees

The salaries of the employees for ASOC are based upon the Los Angeles Police Department salaries. ASOC then added 10 percent to these salaries in order to create an incentive for talented officers to apply for jobs with ASOC. They are: Lieutenant (LT) = \$118,338, Sergeant (SGT) = \$100,449, Officer = \$87,573, Administrator = \$77,756. ASOC plans to employ 1 LT, 3 SGTs, 21 Officers, and 1 administrator. Thus, the total salary costs for ASOC are \$2,336,474.

b. Capital Costs

The capital costs for the company consist of replacement vehicles and new/replacement equipment costs. ASOC is forecasting a 4-year-life for its vehicles due to regular use. Thus, it plans to buy one new regular suburban costing \$50,000 every two years. It plans to spend \$20,000 replacing parts to weapons and wearable gear such as ropes and uniforms. Its total budgeted annual capital costs are \$70,000.

c. Supply and Service Costs

The supply/service costs consist of a myriad of different expenses for ASOC. The company organized these requests similarly to the Las Vegas Police Department, primarily because they are concerned with maintaining good accountability of their expenses. They range from minimal costs such as groceries (\$2500/year) to substantial costs such as ammunition (\$40,000). ASOC forecasted use of these various services and supplies based on an aggressive training plan and private military company experiences.

Some of the substantial supply/service costs are the helicopter lease, helicopter maintenance, and helicopter fuel annual costs of \$518,170. These maintenance costs are based on operating costs of \$582/hour and approximately 500 hours of flying each year. The helicopter fuel costs are based on 113 gallons of fuel per hour at \$2.25 per gallon and 500 annual flying hours.

Additional costs of note are operating supplies (\$50,000/year), vehicle maintenance (\$50,000/year), travel/transportation (\$25,000/year), and ammunition (\$40,000/year). The operating supplies will coordinate with the capital equipment cost budget to ensure the teams have the necessary supplies to successfully conduct operations. These supplies are primarily for SWAT operational supplies. The vehicle maintenance budget also provides a robust budget to maintain the vehicles and provides a buffer for especially rough use of the vehicles during real-world missions. ASOC plans to have several older vehicles for training, so these maintenance costs should be reserved primarily for the suburbans.

The travel/transportation budget primarily goes for costs associated with integrated training with local law enforcement and real missions. It also applies to business travel where ASOC leadership travels to city governments around the region to market ASOC's services.

Lastly, ASOC predicts expending thousands of rounds of ammunition in training. Focused target training should prevent inordinate firing of rounds during

operations and save lives of team members and civilians. Hence, the supply/service budget is \$825,170 per year.

d. Total ASOC Direct Cost

After adding the salaries, capital costs, and supply/service costs, the total direct costs for Phase 2 ASOC are \$3,231,644 per year. This total direct cost is the present value of the Phase 2 ASOC SWAT Initiative costs. (See Appendix D)

3. Phase 3 – ASOC Regional Swat Costs

a. Salaries of the Employees

The salaries of the employees for Phase 3 are the same as for Phase 2. ASOC plans to employ 4 Lieutenants, 18 Sergeants, 38 Officers, and 1 administrator. Thus, the total salary costs for ASOC are \$5,686,964.

b. Capital Costs

The capital costs for the company consist of replacement vehicles and new/replacement equipment costs. ASOC is forecasting a 4-year-life for its vehicles due to regular use. Thus, it plans to buy one new armored suburban costing \$100,000 and one new regular suburban costing \$50,000 each year. It plans to spend \$20,000 replacing parts to weapons and wearable gear such as ropes and uniforms. Its total budgeted annual capital costs are \$170,000.

c. Supply and Service Costs

The supply/service costs consist of a myriad of different expenses for ASOC. The company organized these requests similarly to the Las Vegas Police Department, primarily because they are concerned with maintaining good accountability of their expenses. They range from minimal costs such as groceries (\$2500/year) to substantial costs such as ammunition (\$75,000).

Some of the substantial supply/service costs are the helicopter lease, helicopter maintenance, and helicopter fuel costs of \$1,554,510 for three helicopters. These maintenance costs are based on the same helicopter operating costs discussed in Phase 2.

Some of the substantial supply/service costs are operating supplies (\$50,000/year), vehicle maintenance (\$50,000/year), travel/transportation (\$50,000/year), and ammunition (\$75,000/year). These supply/service costs mirror the supply/service costs for Phase 2 but reflect a larger team of 61 employees. Hence, the supply/service budget is \$1,996,510 per year.

d. Total ASOC Direct Costs

After adding the salaries, capital costs, and supply/service costs, the total direct costs for Phase 3 ASOC are \$7,853,474 per year. This total direct cost is the present value of the Phase 3 ASOC SWAT Initiative costs. (See Appendix E)

H. FINAL RESULTS OF COST EFFECTIVENESS ANALYSIS

1. Phase 2

Phase 2 Cost Effectiveness Summary	Costs
LA Local & Federal Agency Overlap Teams	\$10,800,000
TOTAL GOVERNMENT SWAT COSTS	\$10,800,000
ASOC Costs	\$3,231,644

Table 1. **PHASE 2 COST EFFECTIVENESS SUMMARY**

This cost effectiveness analysis has focused primarily on fiscal costs. The fiscal cost analysis found that the total annual local and federal overlap SWAT costs were \$10,800,000. This analysis found that the total annual ASOC Initiative costs for Phase 2 were \$3,231,644.

Thus, ASOC SWAT Initiative is more cost effective than local SWAT teams because its present value is \$7,568,356 less per year for the local governments in the region.

2. Phase 3

Phase 3 Cost Effectiveness Summary	Costs
Las Vegas SWAT	\$4,924,638
LA Local & Federal Agency Overlap Teams	\$10,800,000
San Diego SWAT	\$2,230,590
TOTAL GOVERNMENT SWAT COSTS	\$17,955,228
ASOC Costs	\$7,853,474

Table 2. **PHASE 3 COST EFFECTIVENESS SUMMARY**

The fiscal cost effectiveness analysis for Phase 3 found that the total annual regional SWAT costs were \$17,955,228 for the Las Vegas, Los Angeles local and federal overlap, and San Diego SWAT. This analysis found that the total annual ASOC Initiative costs for Phase 3 were \$7,853,474. Thus ASOC SWAT Initiative is much more cost effective than regional SWAT teams because its present value is \$10,101,754 less per year for the local government in the region.

I. IMPLICATIONS OF THIS COST-EFFECTIVENESS ANALYSIS

The implications of this cost-effectiveness analysis are numerous for both Phase 2 and Phase 3 of ASOC Initiative. First, local governments can save valuable monetary resources that they can apply to other programs in their police departments or other municipal programs. These savings have both fiscal and political implications. The fiscal implications are obvious and amount to thousands of dollars for the small city police departments and to millions of dollars for the large city police departments. The political implications apply to both city groupings. The citizens will likely feel safer if they understand the advantages of having specialized SWAT capabilities in their local area. They also should see the benefits of the redirected money in better police enforcement or other municipal improvement programs.

The recent influx of money to the Department of Homeland Security also provides an interesting implication for local governments. The FY 2004 Urban Areas Security Initiative (UASI) Grant Program opens numerous doors for possible federal funding of ASOC SWAT services. “This program provides financial assistance to

address the unique planning, equipment, training, and exercise needs of large urban areas, and to assist them in building an enhanced and sustainable capacity to prevent, respond to, and recover from threats or acts of terrorism.”⁶¹

This grant program is but one of numerous other opportunities for local governments to fund their SWAT needs through ASOC and redirect their money to other resources. ASOC SWAT Initiative is a win-win situation. With the large focus on homeland defense, the Department of Homeland Security will likely receive billions of dollars in the next few years from Emergency Response Funds and Congressional Supplementals. ASOC’s mission is to defend citizens in high-risk situations, which coincides with Congressional direction for homeland security funds.

Just as privatized military organizations have received federal contract money, local governments will also receive money for local homeland security that they can use to contract SWAT services. Based on this cost-effectiveness analysis, ASOC SWAT Initiatives should have a market for its services for years to come, especially when it saves police departments millions of dollars each year.

⁶¹ http://www.ofp.usdoj.gov/odp/grants_programs.htm

VI. IS ASOC WORTH DOING? (FINANCIAL ANALYSIS)

A. FINANCIAL ANALYSIS INTRODUCTION

This chapter will focus on future financial predictions for ASOC SWAT Initiative. The purpose of these predictions is to give the company leadership information concerning future financial strengths and weaknesses in the company. It also provides quantifiable numbers to present to investors, banks, and employees as the company looks to borrow money, seek investment money, and hire tentative employees. Most importantly, these financial forecasts allow ASOC to determine if it can make money and survive the tough beginning years that the majority of businesses experience.

The financial analysis will address an optimistic scenario where ASOC has strong initial revenue and customers pay cash up-front for services. It will then address a worst-case scenario in which revenue is not initially consistent and demand for privatized SWAT capabilities is not initially strong. The analysis will address the assumptions for each scenario and will then analyze possibilities for overcoming initial problems as ASOC moves between its strategic phases.

B. OPTIMISTIC SCENARIO

The optimistic scenario involves successful moves into each phase of the business strategy where initial revenue and cash flow are large enough to cover costs. These strong beginning revenues and cash flows yield an initial positive net income.

C. FINANCIAL ANALYSIS ASSUMPTIONS – OPTIMISTIC SCENARIO

To determine the financial data for the Pro Forma Statements for the optimistic scenario, the research team made numerous assumptions based on both known data and unknown data. This section will explain those assumptions in-depth. For all phases, ASOC will assume that dollars are based on 2005 present-value dollars.

1. Phase 1 – Consulting Phase Assumptions

a. *Income Statement Assumptions*

- Sales Revenue – The sales revenue is based on a set contract with various law enforcement agencies. After an initial sales focus by ASOC, 30 local police departments in the Los Angeles area will pay \$10,000 per year for SWAT coordination and communication services. The six Federal Agencies will each pay \$20,000 per year for the same services. The LAPD and LAPD Sheriff's Department will each pay \$20,000 per year for services. ASOC will increase these prices 3 percent per year to account for inflation and rising costs. These costs are based on the predicted market and the costs of running the company. Since there is no competitor, ASOC will be the first to establish market prices and will not have to compete initially for business. Depending on participating law enforcement agencies, the prices would have to be adjusted to cover costs. (See Appendix H)
- Expenses – For its forecasted expenses, ASOC assumed that all expenses increase by 3 percent per year for the first 5 years except for payments on equipment and facilities. It also assumes that start-up costs are included in expenses. For the \$250,000 communication equipment purchase, ASOC used a 10 percent interest rate on a 5-year loan. They based this assumption on the Santa Cruz Community Credit Union Business Equipment Loan rate.⁶² The yearly notes payable were calculated using present value formulas assuming yearly payments. The payments on facilities consist of the \$36,000 yearly rental expense for the office. The capital expense for the first year consists of the initial cost for office equipment and furniture. For Phase 1, there are no capital

⁶² <http://www.scruzccu.org/rates/business-english.shtml>

expenses following this initial first year cost. The personnel costs consist of \$100,000 yearly salary for each of the three employees. These salaries include a conservative 3 percent per year pay increase for the employees. There are no supply/services expenses for this phase. The income taxes payable assumes a 34 percent federal corporate tax rate. The California state corporate tax rate is a flat tax rate of 8.84 percent.⁶³ ASOC assumes that they will pay all of these costs at the beginning of the fiscal year when they receive the contract money from the police stations.

b. Cash Flow Assumptions

- ASOC's cash flow statement assumes that the local governments/law enforcement agencies will pay their yearly contract fees at the beginning of the year in cash.
- ASOC assumes that operating expenses include all expenses except for the payments on equipment and facilities.
- ASOC assumes that it will pay its expenses the same year.
- ASOC does not include interest income or interest expenses in its operating activities.
- ASOC includes income taxes in its operating cash outflows.
- ASOC assumes that there is no cash flow from financing activities since it is a private company. It does not sell short-term investments, issue common stock, or buy back stocks. It also does not pay cash dividends to employees or owners of the company.
- All the values on the cash flow statement use the same assumptions as stated in the income statement assumptions.

⁶³ <http://www.taxfoundation.org/corporateincometaxrates.html>

2. Phase 2 – Los Angeles Operational Swat Team Assumptions

a. *Income Sheet Assumptions*

- Sales Revenue – ASOC’s sales revenue comes primarily from contracts with local police departments. It assumes that 50 percent of the Los Angeles small SWAT teams and 50 percent of the Los Angeles federal agency SWAT teams will hire ASOC to either augment or replace their own internal SWAT teams. ASOC also assumes that it will not replace LAPD SWAT, Los Angeles County Sheriff SWAT, or the Los Angeles-based FBI Enhancement Team because of their entrenched status in the Los Angeles area. The fee that ASOC will charge each small-city government for its SWAT services is \$50,000 per year, which totals \$750,000 of revenue per year for 15 cities. ASOC will charge \$4.5M for the 6 federal agency SWAT teams based upon assumed costs for their teams. These fees are based upon the researched costs to taxpayers of funding these SWAT teams. Thus, total revenue for ASOC will initially be \$5,250,000. ASOC will raise fees by 3 percent each year to account for inflation. (See Appendix I)
- Expenses – For its forecasted expenses, ASOC assumed that all expenses increase by 3 percent per year except for payments on equipment and facilities, and depreciation expense. Initial start-up costs for equipment will be \$609,650. The interest rates for this equipment purchase are the same as described in Phase 1. Based on these interest rates, the yearly note payments will be \$160,824 for a 5-year note. For the mortgage payment on the facilities, ASOC assumes a 6.25 percent interest rate on a 10-year loan based upon quotes for similar interest rates of similar loans. ASOC used the Wells-Fargo bank’s terms, which state that a Small Business

Administration (SBA) loan with terms greater than 7 years uses the New York Prime Rate plus 2.75 percent. They used a prime rate of 4.75 percent.⁶⁴ Thus, the start-up facility mortgage for \$1,500,000 facility costs will have yearly payments of \$206,223. The capital expenses of \$70,000 per year primarily consist of annual replacement vehicle and equipment costs. The supply/services expenses are based on forecasted operating costs. Personnel expenses are based on LAPD SWAT salaries plus 10 percent. The depreciation expenses come from the summation of the yearly accumulated depreciation of the equipment and the facilities. The depreciation expense is found by subtracting the salvage value from the cost of the item and then dividing by the useful life.⁶⁵ The assumed salvage value for the facility is \$1M and the assumed useful life is 20 years. The assumed salvage value for the equipment is \$200,000, and the assumed useful life for the equipment is 5 years. The income taxes are based on the same assumptions as discussed for Phase 1 – 34 percent federal corporate tax and 8.84 percent California flat corporate tax rate.

⁶⁴ <http://www.wellsfargo.com/biz/products/credit/sba/compchart/compchart.jhtml>.

⁶⁵ <http://www.bankrate.com/gokeyword/ratewatch/leading-rates.asp>

b. Cash Flow Assumptions

- ASOC's cash flow statement for Phase 2 makes the same assumptions for Phase 2 as it did for Phase 1.

3. Phase 3 – Regional Operational Swat Teams Assumptions

a. Income Sheet Assumptions

- Sales Revenue – ASOC's sales revenue for Phase 3 comes primarily from contracts with police departments and federal agencies. The southern California regional focus, though, also includes revenue from San Diego and Las Vegas police departments for SWAT services. Thus, the sales revenue for Phase 3 uses the same numbers and assumptions as Phase 2 for the Los Angeles area and adds the regional revenue for the San Diego and Las Vegas areas. ASOC derived the costs for the San Diego and Las Vegas services from the researched budgets for their SWAT teams. The optimistic forecast for the Phase 3 contracts assumes that revenue comes at the beginning of each year of services. The awarding of this money at the front end of the year helps with covering the costs throughout the year. ASOC also assumed that revenues will grow by 3 percent each year to cover inflation. This growth will result from increases in fees for the various contracts with local and federal agencies.
- Expenses – For its forecasted expenses, ASOC assumed that all expenses increase by 3 percent per year except for payments on equipment and facilities, and depreciation expense. The payments on equipment and facilities assume the same loan types as Phase 2 but increase the amounts invested in facilities and equipment due to mission and personnel expansion. The capital expenses, supply/services expenses, and personnel expenses also increase due to the necessity of more resources to cover a significantly

larger sector and to the increase in personnel from 26 to 61. ASOC calculated the depreciation expenses the same as for Phase 2 except that it assumed a salvage value of \$500,000 for equipment and \$1.5M for the facilities. The costs for the facilities and equipment increased but the useful lives stayed the same. The income taxes are based on the same assumptions as the balance sheet – 34 percent federal corporate tax and 8.84 percent California flat corporate tax rate.

b. Cash Flow Assumptions

- ASOC’s cash flow statement for Phase 3 makes the same assumptions as it did for Phase 1 and 2.

D. IMPLICATIONS OF OPTIMISTIC SCENARIO FINANCIAL ANALYSIS

The financial analysis for this first scenario, the optimistic scenario, allows ASOC to forecast possible strengths and weaknesses of the 3 phases of the ASOC SWAT Initiative. They are not complete and are based on numerous dynamic assumptions that can change daily. They do give valuable information for analysis of profitability and cash-flow.

1. Profitability

The profitability of ASOC for this scenario rests on the assumption that local police departments and federal agencies in Los Angeles and the region will want to contract ASOC to use their services. Because the contracts call for money paid up-front in this scenario, ASOC will have revenues at the beginning of each phase to cover costs and produce a profit. The profit margins for ASOC by phase are shown in the following table.

	Year 1	Year 2	Year 3	Year 4	Year 5
Phase 1	4.7%	7.5%	7.7%	7.9%	8.1%
Phase 2	17.4%	17.5%	17.7%	17.8%	17.9%
Phase 3	14.3%	14.5%	14.7%	14.9%	15.1%

Table 3. **PROFIT MARGIN – OPTIMISTIC SCENARIO**

In this scenario, ASOC will earn profit from the start, and the profits will increase steadily during each phase.

2. Cash Flow Analysis

The contract agreements in the optimistic scenario will require customers to pay at the beginning of the year for ASOC services. This contract agreement will lead to positive cash flow for ASOC, which will allow them to pay operating expenses as they arise. This positive cash flow will prevent ASOC from having to seek cash to cover expenses from banks or outside investors. The cash flows for each year are summarized in the following table.

	Year 1	Year 2	Year 3	Year 4	Year 5
Phase 1	\$21,750	\$35,308	\$37,498	\$39,754	\$42,078
Phase 2	\$913,633	\$948,244	\$983,893	\$1,020,612	\$1,058,432
Phase 3	\$1,779,860	\$1,857,913	\$1,938,308	\$2,021,115	\$2,106,406

Table 4. **CASH FLOW BY YEAR – OPTIMISTIC SCENARIO**

Thus, the optimistic scenario demonstrates that ASOC will be able to operate with a positive cash flow from the start. This scenario also demonstrates that ASOC will have cash to invest in assets and smoothly progress to the next phase of the business strategy. If ASOC is able to market their service and secure contracts with law enforcement departments and federal agencies based on the assumptions for each phase discussed in this section, their future looks bright.

3. Optimistic Scenario Conclusion

Based on market research, ASOC has identified a need for their service. This scenario may be optimistic, though, because it assumes 100 percent participation in the Los Angeles area for Phase 1, 50 percent participation in the Los Angeles area for Phase 2, and 100 percent participation of the regional city SWAT teams in Las Vegas and San Diego in Phase 3. Because of the assumed initial success in marketing and selling ASOC's product, this scenario explains away much of the difficult transition between phases by assuming contracts in which money is paid at the beginning of the year, and police departments are clamoring for ASOC's services. Even if ASOC is relatively confident in the value of their services and the demand for their services, it is important to consider a worst-case scenario where everyone is not clamoring for privatized SWAT services and revenue, and cash is not flowing into the company. Thus, it is necessary to consider the implications of a worst-case scenario for ASOC financial forecasting and ASOC's overall business strategy.

E. WORST-CASE SCENARIO

ASOC must be prepared to react to low demand for their product and any cash flow problems resulting from low revenues. The most dangerous periods in the company's business strategy are not during the different phases but in the movement between the phases. It is during this uncertain time period between the phases where ASOC will need to invest money in expensive assets such as new facilities and additional helicopter and vehicle support. As they attempt to move into new markets, the company must also determine how it will gain enough cash to continue to pay its increasing operating expenses.

In order to meet its forecasted expenses, ASOC needs to determine the break-even point to cover its expected costs for each phase. This break-even point will allow ASOC to determine how much it should minimize costs and creatively acquire cash to keep the business functioning.

The other important task is to determine the worst-case scenario for each phase. For planning purposes, ASOC will describe the worst-case scenario for the transition from Phase 1 to Phase 2 as the following; as ASOC makes the transition from Phase 1 to Phase 2, it will have only one Los Angeles local police department contract, and it can only expect slow growth in the contracts at the rate of 5 cities per six months. This delayed growth will be due to the local police departments' desire to see if the company will succeed in providing an effective and safe SWAT service. Thus, ASOC must be creative in planning for this worst-case possibility.

A similar worst-case scenario applies to the move from Phase 2 to Phase 3. This worst-case scenario involves Las Vegas and San Diego hesitancy to contract fully for ASOC SWAT services. This hesitancy will be due to the municipal difficulties in securing public funds and concerns with hiring privatized SWAT services.

F. STRATEGIES FOR OVERCOMING WORST-CASE SCENARIO CHALLENGES

1. Break-Even Amounts

For each phase in the worst-case scenario, there is a break-even point. This break-even point is the amount of revenues ASOC must earn to meet its total expenses. As soon as ASOC brings in more revenues than expenses, it will make a profit. For this analysis, ASOC will determine its break-even point in pre-tax dollars.

For Phase 1, ASOC must earn revenues of \$421,949 to surpass its expenses using the assumptions for the optimistic scenario. For Phase 2, ASOC's break-even point is \$3,651,621. For Phase 3, ASOC must earn \$9,291,408. (See Appendices H, I, J) As discussed, this break-even point uses the same assumptions as the optimistic scenario. All of these break-even points are substantial and increase dramatically between phases. Given the worst-case scenario of only one police department contracting ASOC's SWAT services, ASOC must be creative and identify strategies of how it will find cash to continue daily operations as it gains contracts and transitions between phases.

2. Strategies

These strategies for increasing revenue and cash-flow apply principles that primarily focused on the transition from Phase 1 – the communication consulting phase to Phase 2 – the operational SWAT phase. This strategic analysis does not focus on cash-flow strategies for start-up costs of Phase 1 because ASOC can survive with a much lower revenue if the 3 consultants take dramatic cuts in pay, and the company is creative in acquiring communication equipment. It also does not focus heavily on the transition to Phase 3 because ASOC will have a solid infrastructure established in Phase 2 and can apply the same principles described for Phase 2 to the transition to Phase 3.

3. Short-Term Focus on Small Niche Swat Market

The first strategy for ASOC to successfully survive the transition from Phase 1 to Phase 2 is to focus on the small niche market of contracted SWAT security services for private companies and special events. This niche market strategy's advantage would be ease of entry into the market. ASOC could enter this market with limited resources, smaller teams, and lower costs than its Phase 2 goal of contracting with numerous local police departments and federal agencies. This strategy, though, would have the disadvantage of numerous established players including local police SWAT teams, federal agency SWAT teams, and private security firms that provide quality SWAT protection for businesses. The niche market of private security for companies, though, would still potentially provide valuable operating cash to keep ASOC in business as it transitions from consulting to operational services. ASOC would focus on providing SWAT capability to the security already in place at both businesses and special events. In the LA area, there are numerous businesses and potential terrorist targets that ASOC could provide services.

a. Theme Parks

First, ASOC could contract with the various theme parks in the Los Angeles area for SWAT teams to react to terrorist threats and actions. Los Angeles has

numerous theme parks primarily in the Anaheim area including Disney and Universal Studios. In the San Fernando Valley in northern Los Angeles, there also is Magic Mountain, which is a large amusement park. These parks are high-risk terrorist targets due to the number of people passing through them each year. These companies, especially Disney, have billions of dollars in revenue each year and can afford to pay ASOC for its services.

b. Movie Industry

Another niche market would be to provide reaction security for the movie industry. ASOC could focus on special events such as the various award evenings. Another potential market is the security for the studios during filming of movies or on station in dangerous filming locations. The movie studios also have disposable income and would likely be willing to pay for specialized security to protect its investments. Another emerging market is private security for movie stars and high-profile musicians. Some of these celebrities feel they need specialized security or simply desire to create the perception that they can afford specialized security.

c. Sporting Events

Sporting Events also are potential business for ASOC. In Los Angeles, there are multiple professional teams, college teams, and various other sporting events. Los Angeles has numerous major venues for these high-visibility events – the Staples Center, the Rose Bowl, the Dodger’s stadium, the Anaheim Angels stadium, and various other venues. Professional and college-level athletic teams have disposable cash and would be willing to pay for specialized security services, especially during high-visibility events.

d. Private Companies

In Los Angeles, there are numerous large companies that ASOC could pursue for business. One example would be Bank of America, which has numerous

locations in the Los Angeles area. In the Los Angeles and Anaheim area alone, there are over 50 banking centers that provide service for customers.⁶⁶ Bank of America is a likely target for various types of crime and would likely pay for dedicated SWAT capabilities. These types of companies have resources and would have the potential to sign significant multi-year contracts with ASOC for SWAT services. They also are probable targets for various criminals. This type of contract would provide focused revenues for ASOC with few expenses as ASOC attempts to expand its contracts with local police departments.

e. Public Office Buildings

Another source of revenue would be the various political buildings in Los Angeles including the local, state, and federal government offices, all of which are probable targets for terrorists. This market would be more difficult, though, because it involves public money. Thus, the contracts could take time to develop, which would lead to the same problems with the local police departments and federal agencies that cause the cash flow problem as ASOC transitions between Phase 1 and Phase 2.

f. Catastrophic Terrorist Targets

Lastly, a large potential market for ASOC is potential catastrophic terrorist targets. These targets consist of nuclear power plants, ports, dams, and chemical plants. A terrorist attack at any of these sites could cause catastrophic damage to Los Angeles citizens and commerce. Thus, these potential targets represent a focused, niche market that ASOC could provide contracted security services for at a fair price.

All of these small niche markets currently have protection from the various Los Angeles and federal SWAT teams that provide SWAT capabilities. ASOC's market would be to provide fairly priced, focused, highly competent SWAT teams to cover special events and high threat time periods when the other security forces are disbursed or busy. This type of service would provide precious cash for ASOC as they continue building their customer base with law enforcement agencies. These types of

⁶⁶ <http://bankofamerica.via.infonow.net/locator/atmbranch/jsp/index.jsp>

contracts in small niche markets are one strategy that would keep ASOC functioning as it transitions from Phase 1 to Phase 2 and Phase 2 to Phase 3. Depending on the success and profitability of these ventures, ASOC could also develop another steady source of income other than public SWAT contracts.

4. Sub-Contract with Private Defense Contractors

The niche strategy focuses on methods to gain revenue in smaller, private markets rather than local police departments and federal agencies. Another strategy for making the transition between Phase 1 and Phase 2 is to sub-contract with established private defense contractors. These established private defense companies have resources that they could invest in ASOC to help it make the transition from a communication consulting firm to an operational private SWAT organization.

There are numerous strengths that private defense contractors could offer ASOC. First, they have a much larger base of cash that they could invest in ASOC during its initial transition to SWAT operations. This cash would allow ASOC to focus on its vision of replacing the network of small Los Angeles SWAT teams. It would allow ASOC to spend valuable time training for real-world missions. It would also allow them to field the full 26 person team it desires for Phase 2 rather than slowly building its team as revenues grow and provide cash flow. Lastly, the private defense companies would provide expertise to ASOC management on running a private defense company. With years of experience in all types of private defense missions, these companies could guide ASOC management through the initial learning curve of running an operational private SWAT company.

The weakness of this strategy is that sub-contracting through a private defense contractor would lead to a loss of control for ASOC management. Rather than making decisions and executing them, the ASOC leadership would most likely have to clear decision-making through its senior management. If ASOC desired to pursue a different strategy or wanted to enter new markets, it would have much less flexibility to act quickly and decisively. Thus, ASOC must seriously consider whether it wants to surrender control in return for financial support.

5. Focus Solely on Public Sector Law Enforcement

In addition to niche markets and private defense contractors, ASOC also can pursue its original strategy of catering to public sector police departments and federal agencies. This strategy would be the same as discussed throughout this proposal but would start smaller and would limit expenses. Executing this strategy would be the most difficult of the strategies discussed because the initial cash flow coming from one police department would be minimal – approximately \$50,000. Thus, ASOC would have to be very creative in cutting expenses and in acquiring equipment and operating cash if it focuses on this strategy.

In all of these strategies, ASOC will need to find a source of cash to fund its day-to-day expenses and its necessary purchases of new assets when revenues lag. An understanding of a hierarchy of cash possibilities is necessary for ASOC management to continue operations between phases. A hierarchy of cash possibilities will focus management on the least expensive sources of cash and give them additional, more expensive sources of cash to address specific operating needs as they arise.

G. HIERARCHY OF CASH POSSIBILITIES (LEAST EXPENSIVE TO MOST EXPENSIVE)

1. Personal Funds

The first source of cash for ASOC comes from the management's personal funds. This cash is the least expensive for the company because it does not involve borrowing money from anyone else. ASOC will not indebt itself to any person or institution if it uses its own personal investment money. These personal funds can come from personal investment accounts, personal savings, and other forms of personal wealth.

2. Friends, Family, Fools

A second source of cash for ASOC comes from "friends, family, and fools". All three categories consist of personal wealth that these individuals give to ASOC and assume that the company will repay them. This category of cash is second only to personal funds as the least expensive source of cash to ASOC. Some of this money is

legally lent and other portions of it are turned-over to ASOC in confidence of repayment. This money is considered social contracting. Another coined term is “fuzzy debt” because sometimes these debts are hard to measure and payment is subjective.⁶⁷

3. Creative Cash Sources

The next source of cash, which is more expensive to ASOC than personal funds and friends/family/fools, is creative cash sources. These creative cash sources come from numerous sources. The first is the Small Business Association (SBA) loan. The SBA loan has a more reasonable interest rate than conventional loans because the U.S. government guarantees the loans up to 90 percent of the loan itself. Thus, banks are more prone to lend money to small businesses such as ASOC. These SBA loans are administratively intensive, which will require ASOC to request them in advance of moving to Phase 2 of its strategy. SBA also has express loans that have a 36-hour approval process for up to \$150,000 with a guarantee for a 75 percent bank payback.⁶⁸ ASOC could use these express SBA loans for emergency cash flow situations.

Another creative source of cash is Department of Homeland Security Grants. This proposal has discussed these grants at length. The key to ASOC to secure any of this federal grant money is to master the grant process and help potential client law enforcement offices and municipalities expedite the paperwork. ASOC also should focus on the political stakeholders and key players in the Department of Homeland Security to best determine how it can maximize its legal share of this grant money.

Additionally, ASOC can explore the possibility of requesting Department of Defense Grants for terrorism-related issues. These grants also will require serious administrative and paperwork resources but likely can acquire very low cost cash that ASOC can apply directly to operating expenses and asset purchases.

⁶⁷ Starr, Jennifer A., & Macmillan, Ian C. (1990). Resource Cooptation via Social Contracting: Resource Acquisition Strategies for New Ventures. *Strategic Management Journal*, Vol. 11, Special Issue: Corporate Entrepreneurship (Summer, 1990).

⁶⁸ <http://money.howstuffworks.com/startup-capital.htm>

Lastly, another source of cash for ASOC is donations from local and regional business associations. Many businesses have vested interests in securing their products or services, and ASOC could provide them a valuable reaction-team capability. LAPD SWAT used this method of collecting cash to purchase its command and control van from local businesses.⁶⁹ ASOC could use the same method to receive assistance in purchasing assets and covering operating expenses.

4. Home Equity Loan & Leases

The next more expensive sources of cash for ASOC are home equity loans and leases. Unlike the SBA loans, home equity loans will tend to have a higher interest rate and be more costly. These home equity loans, though, use the owner's money as equity, which introduces more personal risk but also more control of the financing. Rather than making ASOC subject to outside investors, the home equity loan simply gives ASOC cash that can be used as they desire.

Another important source of cash is leases rather than buying equipment or facilities. ASOC plans on using this option from its inception because it dramatically lowers short-term costs. In the long-term, buying is the cheaper option but requires capital for the initial purchase. Thus, for a company that is starting or transitioning to a different phase, a lease can save money by lowering start-up costs. In ASOC's case, a good example of the trade-off between short-term and long-term savings is the difference between buying and leasing a helicopter. If ASOC buys a helicopter, it can cost over \$2M whereas leasing a helicopter costs approximately \$100,000 per year. Even though the price of the lease may be higher in the long-term, a lease allows them to gain this necessary asset at a much more reasonable short-term cost. Thus, both leases and home-equity loans are attractive to ASOC. They are still more expensive and risky to the company than using personal funds, friend/family money, or various SBA loans, government grants, or business association donations, but are another option for ASOC management.

⁶⁹ Telephone Interview: LAPD Finance Officer

5. Commercial Sources

Finally, the most expensive source of cash for ASOC comes from commercial sources. These commercial sources are “angels” (wealthy private investors who mentor companies by giving them money) and venture capital companies. The strength of using these commercial resources is that they provide large amounts of liquid cash to the company. The weakness of using these sources is that they are very expensive to ASOC in the long-term. First, the payback is usually substantial. Venture capital firms make their money from the companies they invest in going public or “selling out” to another company. Thus, they can exert serious pressure on a start-up company by pushing them to “sell-out” even if they do not want this option.⁷⁰

Second, the quest to attract venture capitalist and private investor backing requires serious time and administrative commitment. Venture capital companies hear thousands of business plans each year and only accept 5 to 10 businesses per year.⁷¹ Thus, ASOC’s management would have to invest serious time and energy gaining venture capital backing. This backing would give ASOC start-up flexibility but would also constrain them in controlling their strategic direction and pursuing changing visions.

6. Summary of Hierarchy of Cash Possibilities

This hierarchy of cash possibilities for ASOC illustrates the low and high cost sources of cash both in direct financial costs and in opportunity costs. This cash, though, is a necessity for ASOC to make the transition from its consulting and coordination phase to its SWAT operational phase. ASOC can lower the cash needs for this transition by determining how it can cut its expenses. By lowering fixed and variable costs, ASOC can smooth this transition between phases and lessen short-term cash flow problems until revenues can cover its expenses.

⁷⁰ <http://money.howstuffworks.com/startup-capital.htm>

⁷¹ <http://money.howstuffworks.com/startup-capital.htm>

H. DIRECT EXPENSE CUTS

As discussed in the hierarchy of cash possibilities, a business in transition often must make short-term, higher expense decisions in order to stay in business and maintain its cash flow. This same logic applies to ASOC cutting its expenses to survive its transition from Phase 1 to Phase 2 and Phase 2 to Phase 3. It may have to choose options that will cost more today but keep cash flowing to fund daily operations. ASOC has 4 areas where it can focus on strategies for cutting expenses: equipment, facilities, personnel, and operating expenses. (See Appendices D & E)

1. Equipment

ASOC has numerous areas where it can cut costs in acquiring equipment for the operational phase of its business strategy. Rather than buying all of its equipment, ASOC can “co-opt underutilized goods” from other sources. First, ASOC could borrow weapons and equipment from the agencies that are hiring it for services.⁷² For example, local police departments who are transitioning from providing their own SWAT services could allow ASOC to use their equipment in exchange for contracted services. By understanding the zone of possible agreement and trading something that costs them little, such as their services, for something that is valuable to them, such as equipment, they can minimize the start-up costs of purchasing their own equipment.

Taking this zone of agreement to a deeper level, ASOC also could trade their services to police departments for reduced-rate purchases of SWAT equipment that the police departments can buy at cheaper prices through various companies that they have agreements with for large purchase orders. This reduced rate buying would cut costs for ASOC as they transition from borrowing to buying their equipment.

Another option for ASOC to acquire equipment is to work endorsement deals with various military gear and weapon companies. Many of these companies desire to

⁷² Starr, Jennifer A., & Macmillan, Ian C. (1990). Resource Cooptation via Social Contracting: Resource Acquisition Strategies for New Ventures. *Strategic Management Journal*, Vol. 11, Special Issue: Corporate Entrepreneurship (Summer, 1990).

have their gear used by various military and SWAT units for marketing purposes. ASOC has the potential to gain a share of this endorsement market and cut equipment costs.

Rather than initially buying equipment and weapons, the other option for ASOC is to require its employees to use their own weapons and equipment. Numerous police departments use this cost-cutting strategy already. In addition to cutting equipment costs, it also allows the employees to tailor their gear to personal taste, which leads to employee satisfaction and better performance.

Still another possibility for ASOC to lower equipment costs is to lease its equipment. This leasing would be more costly in the long-term but would allow ASOC to continue its phase transition until it attracts more contracts. This leasing would give ASOC the flexibility to experiment with equipment based on its various mission requirements. It also would allow them to purchase the equipment if it worked effectively and met their mission requirements.

2. Facilities

The facility expenses for ASOC are a substantial piece of the start-up costs as the company transitions to operations. ASOC needs excellent facilities to train for the high-risk operations it may face during call-outs. The initial cost to purchase these assets for Phase 2 is approximately \$1.5M, which will be difficult to obtain before ASOC establishes enough contracts to generate sufficient revenue. Therefore, ASOC must be creative in cutting costs for its facility or in finding a substitute until revenues begin to flow.

As discussed for the equipment, a reasonable strategy for gaining temporary facilities is to trade the use of facilities for services. This trading of services can be done with local police departments, federal agency offices and training sites, local military installations, or with possible niche market facilities such as the Staple Center.

The local police departments all have facilities that ASOC could use for both training and office space. This trading of space for its services would allow the police departments to transition away from their SWAT teams and into contracts with ASOC as

the police departments and municipal governments finalized any payment for services. This trade would be a positive-sum game for both parties involved because they would both receive items of value, while giving-up low-cost services.

The arenas would offer outstanding training facilities for ASOC. The various professional sports stadiums, the Rose Bowl, and The Staple Center would provide outstanding, real-world training facilities for ASOC employees to prepare for various contingency missions with realistic scenarios. In turn, ASOC could provide attractive returns for these businesses by compensating them with SWAT services. Again, the key to this strategy is for both players to gain something of value by offering a low cost service or product.

All of the niche markets discussed earlier in this chapter – amusement parks, ports, nuclear facilities, and federal buildings all could potentially offer excellent facility-usage both in offices and training facilities to ASOC in return for services. By developing strong social assets with these potential clients, ASOC can develop relationships that would benefit it both in word-of-mouth marketing and exchanging necessary resources. By sharing information, gaining and receiving favors, and solving and receiving help with problems from clients, ASOC can establish strong professional relationships with the law enforcement agencies and the niche business markets for SWAT.⁷³

3. Personnel

Personnel expenses are the highest operating expenses for ASOC. (\$2.3M for Phase 2 and \$5.7M for Phase 3) These labor costs are so high because of the number of employees needed to effectively provide SWAT services throughout Los Angeles in Phase 2 and Southern California in Phase 3. Hence, personnel costs are the segment that ASOC can cut the most during transition times. There are numerous possibilities to decrease these personnel expenses.

⁷³ Starr, Jennifer A., & Macmillan, Ian C. (1990). Resource Cooptation via Social Contracting: Resource Acquisition Strategies for New Ventures. *Strategic Management Journal*, Vol. 11, Special Issue: Corporate Entrepreneurship (Summer, 1990).

First, ASOC can start each phase with smaller teams. Rather than beginning Phase 2 with the forecasted 26 employees, it could start with an 8 person team to provide services to the niche markets. For Phase 3, rather than begin with 61 persons, it could use the 26 personnel from Phase 2 and slowly begin to build the teams as revenues increase.

Second, ASOC could ask its employees to work for free for a set period of time. For the various phases, this free labor would provide cash for daily operations and investment. ASOC could sell this idea to the employees by offering them shares of the company as pay. This share in the future growth of the company would compensate the employees for their services, while instilling ownership in ASOC. ASOC also could recruit retired military special-forces soldiers who have established retirement incomes and strong training background and leadership skills for SWAT operations.

Lastly, another option to save personnel costs would be to pay employees part-time wages. This would dramatically cut the personnel costs but would still provide income for employees during the company transition to Phase 2. All of these strategies would reduce personnel expenses but also would require the employees to sacrifice a steady salary until ASOC can establish stable revenues.

4. Operating Expenses

The final expenses that ASOC must decrease to survive this worst-case scenario are the operating expenses. The operating expenses are difficult to decrease because the company must continue day-to-day operations. ASOC has options it can pursue to cut these costs.

ASOC's management can minimize unnecessary expenses. For example, ASOC can minimize amenities for the company. It can cut unnecessary travel, maintenance, supplies, utilities, and training. Rather than use the helicopter assets for training, it can conduct static helicopter training and use it for real-world missions only. Instead of purchasing unnecessary materials, it can forego these purchases and focus the majority of operating cash on operational necessities such as ammunition for team members and fuel for the vehicles. The cutting of these expenses can lower the overall expenses of the

company by 5 to 10 percent without reducing operational capabilities. The operating expenses are the lifeblood of the day-to-day expenses and must be managed efficiently and effectively if ASOC can survive the transition to Phase 2.

I. SUMMARY AND IMPLICATIONS FOR ASOC

The focus of this chapter is to determine whether it is worth it financially for the company founders to start ASOC SWAT Initiative. This chapter has analyzed two very different scenarios from a financial perspective. First, it analyzed an optimistic scenario to determine if ASOC could make money. This scenario made the assumption that the company could build a substantial client-base before it entered each of the phases. It assumed for Phase 1 that the police departments and federal agencies in Los Angeles would want to contract with ASOC to provide communication and coordination services for Los Angeles law enforcement. It assumed for Phase 2 that 50 percent of the local SWAT police departments and federal SWAT teams in Los Angeles would want to contract with ASOC for SWAT services. It also assumed for Phase 3 that Las Vegas and San Diego would want a contract with ASOC to replace its SWAT services. Using these assumptions to build pro forma income and cash flow projections for a 5-year period, the management of ASOC determined that they could make a profit and have a positive cash flow without receiving any outside investment. (See Appendices H, I, & J) Thus, according to the optimistic scenario, it is worth it for the developers of ASOC to pursue their vision and 3-phase business strategy.

The financial analysis would not be complete, though, if the managers only analyzed the optimistic scenario. The second scenario conveyed a worst-case scenario where only one police department signed a contract for Phase 2, and the other departments were slowly signing contracts over a period of time. Thus, ASOC was forced to plan how it would react to the resulting revenue and cash flow problems that could threaten its existence as it attempted to transition between phases. It analyzed the strengths and weaknesses of a niche market strategy, a sub-contract with private defense firm strategy, and a slow-starting public sector strategy. It then looked at a hierarchy of cash possibilities to fund any cash shortfalls and determined there were numerous, viable

options including personal money, loans, grants, donations, leases, and commercial possibilities. Lastly, it analyzed where it could cut expenses in its equipment, facility, personnel, and operating expenses until the company began attracting the public law enforcement contracts it needs for revenue and cash.

After analyzing this worst-case strategy, ASOC has determined that it can expect to survive the tough transitions between phases by combining the strategies with the sources of cash from the hierarchy of cash possibilities and living lean by cutting all unnecessary expenses. By combining all of the analysis from the worst-case scenario, ASOC has the potential to continue to grow through its business strategies and weather the difficult times when cash is short and revenue is waning. Because of the identified market from Chapter 2 of this business proposal, there is no reason why ASOC cannot eventually build its client-base if it develops a quality service that wins the respect of the Los Angeles municipal leadership and the Los Angeles people. Therefore, it is worth it for the ASOC leadership to pursue the ASOC SWAT Initiative and its current 3-phase business strategy, even if the worst-case scenario proves true.

The real-question, though, is what scenario will ASOC actually experience as it delves into the private SWAT market? Most likely, it will be a mix of the optimistic scenario and the worst-case scenario. ASOC should be able to attract more than one local police department as it transitions to Phase 2. Conversely, ASOC very likely will not begin Phase 2 with 50 percent of Los Angeles police departments and federal agencies contracting their SWAT services. The optimistic scenario does give the ASOC management hope, though, that it can make money in a reasonable period of time even if it does not corner the private Los Angeles SWAT market if other competitors decide to enter. The niche market strategy also may turn-out to be more lucrative and responsive than the public SWAT sector. The possibilities to make money in this untapped market abound and await the taking from managers who can successfully transition when cash is short and difficult expense cuts are necessary for financial survival. ASOC should continue with its 3-phase business strategy and adapt this strategy to the resulting difficulties it encounters in the Los Angeles SWAT market.

VII. CONCLUSIONS AND RECOMMENDATIONS FOR FURTHER STUDY

A. CONCLUSIONS

The ASOC SWAT Initiative business proposal has analyzed numerous variables to best forecast where it should focus its entry into the private SWAT market. Based on an in-depth study of the Los Angeles SWAT market, ASOC determined there are millions of dollars of potential business for their service. After a careful study of their own internal strengths and weaknesses and the industry's threats and opportunities, ASOC also determined that they have the potential to compete and make a profit in this new private SWAT industry. By analyzing the costs of ASOC versus the costs of the numerous SWAT teams located throughout Los Angeles, ASOC determined that it could benefit society by providing a more reliable, competent, and focused SWAT service at a much lower cost than public law enforcement. This cost effectiveness analysis reinforced their vision of providing a quality service that would contribute to the public good and would be a positive-sum opportunity for Los Angeles, San Diego, and Las Vegas. Lastly, ASOC analyzed whether it could survive the tough first years with minimal profit and cash flow problems. It analyzed both an optimistic scenario and a worst-case scenario and determined that it could survive and eventually make money with creative financing, efficient use of its resources, and effective cost-cutting.

B. RECOMMENDATIONS FOR FURTHER STUDY

Even with this thorough and realistic business proposal, ASOC still has many unanswered concerns and questions concerning its 3-part business strategy. These questions and concerns warrant further research before ASOC launches the various stages of its proposed business.

1. San Diego and Las Vegas SWAT Market

The first recommendation for further research is a study of the San Diego and Las Vegas SWAT markets. This business proposal focused heavily on the Los Angeles area as it researched the numerous local police department and federal agency SWAT teams. It did not focus on the Las Vegas and San Diego SWAT market with the same intensity. The analysis looked closely at the Las Vegas and San Diego police department SWAT teams to determine their costs and how ASOC could provide them a quality product at a fair and reasonable price. Just as Los Angeles also had numerous other SWAT teams other than its primary LAPD SWAT team, these other cities have the same potential market. With more intense study of these markets, ASOC can prepare more effectively for Phase 3, the regional SWAT operational phase, with more accurate revenue and market forecasts.

2. Niche Markets

In addition to the regional SWAT market, ASOC also should research the niche markets in Los Angeles to determine if these private companies would be a more effective market focus for ASOC rather than the public law enforcement market. This proposal briefly addressed the strengths and weaknesses of the niche markets – amusement parks, private companies, sport venues, and high-risk terrorist targets such as nuclear power plants. It did not study them enough, though, for company management to make educated and informed decisions about the direction ASOC should pursue.

If ASOC conducted surveys, interviews, and statistical research of the businesses in these niche markets, it could better understand the direction it should pursue. These research methods would allow ASOC to determine how much money these companies currently spend on security and how much disposable income ASOC could attract from them.

3. Private Security

To focus additional research on niche markets even more intensely, ASOC could also conduct additional research into the private security market. This market is exploding, primarily in the entertainment industry. The private security market could become a very high profit niche for ASOC, especially with their action team focus.

Many of the celebrities in the movie and music industry desire high profile security for special events. If ASOC understood this market, it would help them make smoother transitions between business strategy phases.

4. Regions of the United States

The final recommendation for further study would be for ASOC to research other metropolitan areas and regions in the United States to determine if they would have more attractive markets for private SWAT than southern California. This proposal has focused entirely on the Los Angeles - San Diego - Las Vegas triangle because of the proximity to the researchers. Their proximity to this region does not mean that there are not other more attractive markets that ASOC could enter more effectively. Thus, researchers could conduct market studies in high density, commercial cities using the same techniques that ASOC used. These techniques include surveys, interviews, police finance department budgets, and research into local politics. This information would allow the ASOC management to make informed decisions and efficiently focus their vision and strategies on a profitable business venture.

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APPENDIX A

A. RESEARCH AREA

For the study it was decided to focus on the southern half of California. The specific area focused upon was the Los Angeles Metropolitan and surrounding areas to Las Vegas Metropolitan area to San Diego Metropolitan area and everything within that triangle (See Figure 4). The decision to use this area was based upon the current budget issues within the state of California and the high threat of a possible terrorist attack(s).

The southern half of California contains numerous high value targets to include the major cities of Los Angeles, Las Vegas and San Diego. The focal area contains numerous international ports of entry to include airports, harbors and a porous land border with Mexico. The area also has numerous theme parks and tourist centers that could be targeted to inflict mass casualties.

B. DATA

The method used to collect data was through both interviews and surveys. The interviews were conducted face-to-face and by telephone. The surveys were selectively e-mailed to numerous state and local police departments and law enforcement organizations in the target area. Surveys were also filled out by law enforcement senior officials during a seminar that they attended.

The interviews were primarily used with the large metropolitan area SWAT units to gain detailed operational and cost information. This information and interview protocol will be discussed in more detail in the financial portion of this project. The surveys were primarily used with small law enforcement agencies to collect specific information that could be consolidated to get an understanding of the average data for these smaller units. The following interview protocol was used:

1. Does your department currently have a SWAT Team?
2. If not, are you planning on starting a SWAT Team in the future? Why or Why not?
3. Would you be interested in being part of a multi-jurisdictional SWAT Team to reduce costs?
4. If you do have a SWAT Team, what are:
 - a. The number of personnel on the Team?
 - b. Average number of hours in SWAT training per person, per year?
 - c. Number of hours training as a group per year?
5. What are the scenarios the Team trains for?
6. What type of scenarios would the Team like to train for?
7. What other agencies does the Team train with?
8. Where does the Team do most of its training?
9. What SWAT assets does the Team have (air assets, vehicle, other)?
10. What SWAT assets would the Team like to have?
11. What was the initial cost for setting up the Team?
12. What are the yearly expenses for the Team per year (to include personnel costs)? Where do the funds come from (State, Federal or Local)?
13. Could you provide a breakdown of expenses?
14. What is the average reaction time per callout?
15. What is the desired reaction time per callout?
16. What are the number and type of callouts per year?
17. Any other comments you think may be relative to the issue?

C. FINDINGS

Out of 45 surveys sent to these small departments, to include the surveys filled out at the seminar, 14 responses were received from departments that had SWAT teams. Due to security concerns and protection of responders, specific details of each responder's area will not be shown. The following are the average for the responses that were returned.

1. Does your department currently have a SWAT Team?

All of the surveys that were returned were from small departments that currently had SWAT Teams.

2. If not, are you planning on starting a SWAT Team in the future? Why or Why not?

No responses were returned from departments that did not have SWAT Teams.

3. Would you be interested in being part of a multi-jurisdictional SWAT Team to reduce costs?

Five departments responded yes and five departments responded no. Several expressed concerns over how a multi-jurisdictional team would be arranged. One respondent claimed that they are the regional team, but none of the other respondents mentioned that there was a regional team.

4. If you do have a SWAT Team, what are:

a. The number of personnel on the Team?

The average number of personnel on a team was 23 with various breakdowns of Lieutenants, Sergeants and Police Officers.

b. Average number of hours in SWAT training per person, per year?

The average number of hours per person in SWAT training per year was 196 hours. Almost half of the respondents' numbers for personal training were the same as question six, the number of hours training as a group per year. I will make the

assumption that there is overlap between the individual training hours and group training hours. But, not calculating overlap, this number calculates out to 3.77 hours of training per person per week.

c. Number of hours training as a group per year?

Not calculating overlap with individual training, the average number of hours training as a group per year was 174 hours. This average calculates to 3.35 hours per week.

5. What are the scenarios the Team trains for?

The scenario most trained for was hostage rescue with nine departments responding as conducting this training. The following scenarios were also listed: methods of entry, eight departments; high risk search warrants, eight departments; sniper training, three departments; dignitary protection, two departments; crowd control, two departments and surveillance, one department. Several departments were also beginning to train for Weapons of Mass Destruction (WMD) scenarios.

6. What type of scenarios would the Team like to train for?

Most respondents listed the same scenarios they were already training for. Several respondents listed an interest in conducting more hostage rescue and WMD scenario training due to recent terrorist events.

7. What other agencies does the Team train with?

Most departments responded as training with adjacent area teams. At least half responded as training with LAPD and LA Sheriff. Two respondents had done some training with the FBI.

8. Where does the Team do most of its training?

The majority of teams conduct training locally. Several take a yearly trip to ranges outside of their area, mainly Camp Pendleton and other open air shooting ranges.

9. What SWAT assets does the Team have (air assets, vehicle, other)?

The breakdown of assets were as follows: air assets, five departments; armored vehicles, eight departments; SWAT van, five departments; mobile command centers, 4 departments; standard vehicles, all departments; robot, one department.

10. What SWAT assets would the Team like to have?

Most departments wanted more of the assets they already had with the majority of desired assets being helicopters and armored vehicles.

11. What was the initial cost for setting up the Team?

The initial cost was either not known by the person responding or not included. One response of \$40,000 was listed.

12. What are the yearly expenses for the Team per year (to include personnel costs)? Where do the funds come from (State, Federal or Local)?

Not many respondents listed the cost, but the average yearly expense from those who did was \$50,000. The majority of the budgets were from the city budget. Only several respondents were aware that federal grant money for anti-terrorism is available.

13. Could you provide a breakdown of expenses?

Respondents did not include a breakdown for the initial survey.

14. What is the average reaction time per callout?

Average time was one hour but the range was from 45 minutes to over 2 hours.

15. What is the desired reaction time per callout?

Average time was under one hour with range from 15 minutes to one hour.

16. What are the number and type of callouts per year?

The average number of callouts were 4 per year with the range from one to 15. The majority of these were reported as planned and involved barricaded suspects and high risk warrants.

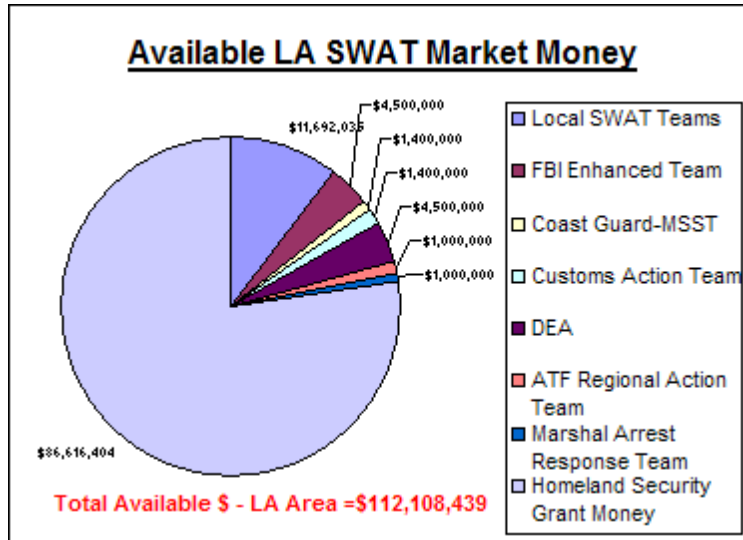
17. Any other comments you think may be relative to the issue?

The majority of respondents did not include additional comments. Several comments listed were: “No way, no how would my agency even consider a privatized SWAT unit” and “Not a bad idea in theory, we tried it (a multi-jurisdictional team) in this county but it failed because of political issues between departments.”

APPENDIX B

AVAILABLE LA SWAT MARKET MONEY

Organization	Costs / \$ Available
Local SWAT Teams	\$11,692,035
FBI Enhanced Team	\$4,500,000
Coast Guard-MSST	\$1,400,000
Customs Action Team	\$1,400,000
DEA	\$4,500,000
ATF Regional Action Team	\$1,000,000
Marshal Arrest Response Team	\$1,000,000
Homeland Security Grant Money	\$86,616,404
TOTAL AVAILABLE \$ - LA Area	\$112,108,439



Local SWAT	Cost
LAPD SWAT	\$5,192,035
LA County Sheriff	\$5,000,000
Small SWAT Teams	\$1,500,000
Total local SWAT	\$11,692,035

*30 SWAT teams from LA, Orange County, and San Bernardino

*Cost to run each SWAT Team = \$50,000/year

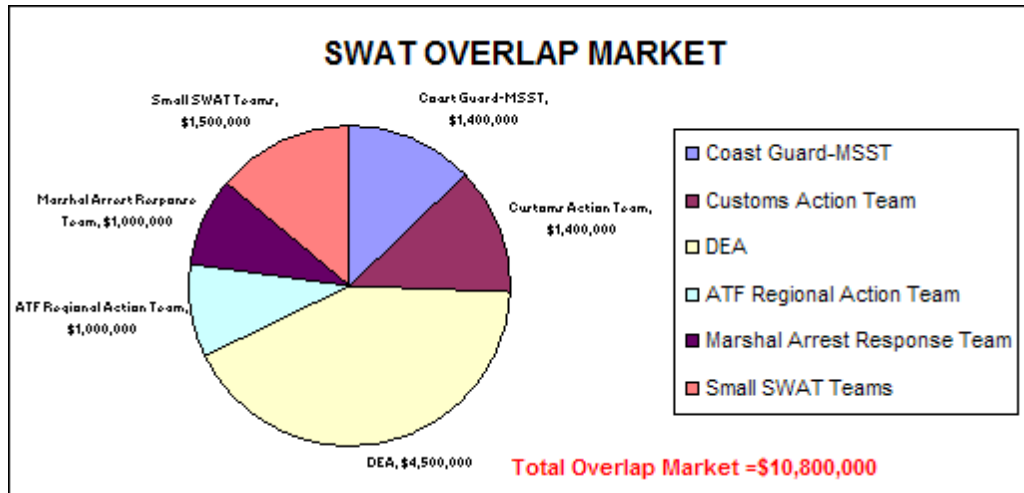
Homeland Security Available Funds

UASI Grant Program-LA	\$28,268,504
UASI Grant Program-Long Beach	\$12,136,091
UASI Transit Security Program	
Los Angeles Metrolink	\$1,982,809
LA County Metro Transport. Authority	\$800,000
HS Grant Program (SHSP)	\$33,491,000
HS Grant Program (LETP)	\$9,938,000
TOTAL AVAILABLE GRANT FUNDS	\$86,616,404

*HS Grant Program available fund assumes that CA designate 25% of funds to LA area.

SWAT OVERLAP MARKET

Organization	Cost
Coast Guard-MSST	\$1,400,000
Customs Action Team	\$1,400,000
DEA	\$4,500,000
ATF Regional Action Team	\$1,000,000
Marshal Arrest Response Team	\$1,000,000
Small SWAT Teams	\$1,500,000
Total SWAT Overlap Funding	\$10,800,000



APPENDIX C

LA LOCAL SWAT POLICE DEPARTMENTS

1. LA Beverly Hills Police
2. LA Burbank Police
3. LA El Monte Police
4. LA Glendale Police
5. LA Inglewood Police
6. LA Long Beach Police
7. LA Pasadena Police
8. LA Pomona Police
9. LA Santa Monica Police
10. LA Torrance Police
11. LA West Covina Police
12. Orange County Sheriff
13. Orange Anaheim Police
14. Orange Brea Police
15. Orange Fullerton Police
16. Orange Garden Grove Police
17. Orange Huntington Beach Police
18. Orange Irvine Police
19. Orange Newport Beach Police
20. Orange Police
21. Orange Santa Ana Police
22. Orange Westminster Police
23. Riverside County Sheriff
24. Riverside Corona Police
25. Riverside Police
26. San Bernardino County Sheriff
27. San Bernardino Fontana Police
28. San Bernardino Ontario Police
29. San Bernardino Rialto Police
30. San Bernardino Police
31. LA Police
32. LA County Sheriff

**Source: Law Enforcement Management and Administrative Statistics, 2000: Data for Individual State and Local Agencies with 100 or More Officers.
<http://www.ojp.usdoj.gov/bjs/pub/pdf/lem00lo.pdf>*

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APPENDIX D

PHASE 2

ASOC BUDGET	
SUPPLIES/SERVICES	\$825,170
CAPITAL	\$70,000
SALARIES	\$2,336,474
TOTAL DIRECT COSTS	\$3,231,644
AUTH POSITIONS	
COMMISSIONED	25
CIVILIAN	1
TOTAL	26
SUPPLIES/SERVICES REQUESTS	
OFFICE SUPPLIES	\$5,000
GROCERIES	\$2,500
OPERATING SUPPLIES	\$50,000
SMALL EQUIPMENT	\$25,000
MAINT-VEHICLES	\$50,000
HELOS (1) LEASED	\$100,000
MAINT-HELO (\$582/hr. * 500hrs. * 1 helo)	\$291,045
FUEL (113 gal/hr * \$2.25/gal * 500 hours)	\$127,125
RENTAL	\$15,000
DATA PROCESSING	\$0

SWAT BUDGET	
INITIAL STARTUP CAPITAL REQUESTS	
1 UPARMORED SUBURBANS	\$100,000
2 REGULAR SUBURBANS	\$100,000
3 300 WINMAG SNIPER RIFLES	\$1,400
OPTICS (SCOPES/BINOS/IR/NVGS)	\$100,000
UNIFORMS/LBGS	\$10,000
BODY ARMOR	\$40,000
BREACHING EQUIPMENT	\$40,000
CLIMBING EQUIPMENT (ROPES/LADDERS)	\$30,000
ASSAULT RIFLES (9MM) (25)	\$22,500
ASSAULT PISTOL (45) (25)	\$11,250
ASSAULT RIFLES (556) (10)	\$4,500
COMMUNICATION EQUIPMENT	\$100,000
MISCELLANEOUS	\$50,000
FACILITIES (OFFICE/TRNG)	\$1,500,000
TOTAL	\$2,109,650

CAPITAL COSTS	
Replacement Vehicles (.5 vehicles/year)	\$50,000
Equipment	\$20,000

TELEPHONE	\$10,000
UTILITIES	\$15,000
PROFESSIONAL SERVICES	\$5,000
ATTORNEY FEES	\$5,000
PSYCHIATRIST	\$0
MEDICAL SERVICES/SUPPLIES	\$3,500
MAINT-FACILITIES	\$10,000
MAINT-EQUIPMENT	\$10,000
POSTAGE	\$100
CONVENTIONS/SEMINARS	\$5,000
EDUCATION/TRAINING	\$20,000
TRAVEL/TRANSPORTATION	\$25,000
PRINTING/REPRODUCTION	\$400
DUES/SUBSCRIPTIONS	\$500
FEES/LICENSES	\$10,000
AMMUNITION (TRAINING)	\$40,000
TOTAL SUPPLIES/SERVICES	\$825,170

POSITIONS FY04-05

POLICE OFFICER LT	1
POLICE OFFICER SGT	3
POLICE OFFICERS	21
1 ADMIN	1
Totals	26

TOTAL	\$70,000
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REFERENCES:

<http://www.colt.com/law/m4commando.asp>

<http://www.blackhawkindustries.com/>

<http://www.daksindustries.com/pages/930104/index.htm>

NOTES

Salaries based on LA salaries +10%.

SALARIES

LT	\$118,338
SGT	\$100,449
OFFICER	\$87,573
ADMIN	\$77,756
TOTAL SALARY COSTS	\$2,336,474

APPENDIX E

PHASE 3

ASOC BUDGET	
SUPPLIES/SERVICES	\$1,996,510
CAPITAL	\$170,000
SALARIES	\$5,686,964
TOTAL DIRECT COSTS	\$7,853,474
AUTH POSITIONS	
COMMISSIONED	60
CIVILIAN	1
TOTAL	61
SUPPLIES/SERVICES REQUESTS	
OFFICE SUPPLIES	\$5,000
GROCERIES	\$2,500
OPERATING SUPPLIES	\$50,000
SMALL EQUIPMENT	\$25,000
MAINT-VEHICLES	\$50,000
HELOS (3) LEASED	\$300,000
MAINT-HELO (\$582/hr. * 500hrs. * 3 helos)	\$873,135
FUEL(113 gal/hr*\$2.25/gal*3 helos*500 hr)	\$381,375
RENTAL	\$25,000
DATA PROCESSING	\$0

SWAT BUDGET	
INITIAL STARTUP CAPITAL REQUESTS	
4 UPARMORED SUBURBANS	\$400,000
4 REGULAR SUBURBANS	\$200,000
12 300 WINMAG SNIPER RIFLES	\$5,600
OPTICS (SCOPES/BINOS/IR/NVGS)	\$500,000
UNIFORMS/LBGS	\$25,000
BODY ARMOR	\$100,000
BREACHING EQUIPMENT	\$75,000
CLIMBING EQUIPMENT (ROPES/LADDERS)	\$75,000
ASSAULT RIFLES (9MM) (50)	\$45,000
ASSAULT PISTOL (45) (50)	\$22,500
ASSAULT RIFLES (556) (10)	\$4,500
COMMUNICATION EQUIPMENT	\$750,000
MISCELLANEOUS	\$50,000
FACILITIES (OFFICE/TRNG)	\$2,500,000
TOTAL	\$4,752,600

CAPITAL COSTS	
Replacement Vehicles (2 vehicles/year)	\$150,000
Equipment	\$20,000

TELEPHONE	\$20,000
UTILITIES	\$30,000
PROFESSIONAL SERVICES	\$5,000
ATTORNEY FEES	\$5,000
PSYCHIATRIST	\$0
MEDICAL SERVICES/SUPPLIES	\$3,500
MAINT-FACILITIES	\$25,000
MAINT-EQUIPMENT	\$20,000
POSTAGE	\$100
CONVENTIONS/SEMINARS	\$20,000
EDUCATION/TRAINING	\$20,000
TRAVEL/TRANSPORTATION	\$50,000
PRINTING/REPRODUCTION	\$400
DUES/SUBSCRIPTIONS	\$500
FEES/LICENSES	\$10,000
AMMUNITION (TRAINING)	\$75,000
TOTAL SUPPLIES/SERVICES	\$1,996,510

POSITIONS FY04-05

4 POLICE OFFICER LT	4
18 POLICE OFFICER SGT	18
38 POLICE OFFICERS	38
1 ADMIN	1
Totals	61

TOTAL	\$170,000
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REFERENCES:

<http://www.colt.com/law/m4commando.asp>

<http://www.blackhawkindustries.com/>

<http://www.daksindustries.com/pages/930104/index.htm>

NOTES

(salaries based on LA salaries +10%)

SALARIES

LT	\$118,338
SGT	\$100,449
OFFICER	\$87,573
ADMIN	\$77,756
TOTAL SALARY COSTS	\$5,686,964

APPENDIX F

SWAT COSTS FOR LA, SAN DIEGO, & LAS VEGAS

Las Vegas Fiscal Cost Analysis

	2002	2003	2004
Total Cost (unadjusted)	\$4,478,719	\$5,166,384	\$4,964,371
Total Cost (2004 \$)	\$4,583,228	\$5,226,314	\$4,964,371
Las Vegas Average Total Cost	\$4,924,638	(See Las Vegas SWAT Appendix)	

Los Angeles Fiscal Cost Analysis

Personnel Costs

Rank	Salary	# Personnel	Costs
LT	\$107,580	1	\$107,580
SGTs	\$91,317	5	\$456,585
Officers	\$70,687	60	\$4,241,220
Total Personnel Costs	\$4,805,385		

Supply/Service Requests

	2004
Expense Fund - Equipment	\$28,300
Range Fees	\$21,210
Maint. - Vehicles	\$57,140
Vehicle Replacement	\$280,000
Total Supply/Service Costs	\$386,650
Los Angeles Total Cost	\$5,192,035

(based on 2004)

San Diego Fiscal Cost Analysis

San Diego Total SWAT Cost	\$2,230,590
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(based on 2005 proposed)

LA SWAT Assumptions

1. Not including sunk costs (initial buying of vehicles)
2. Maintenance on vehicles - ave. of Las Vegas X 2 (because LA SWAT twice as big)
3. Vehicle Replacement - vehicle life of 5 years, thus replace 7 of the 37 police cars each year.
4. Conservative Costs for LA because much of the budget is buried in the Metropolitan Division Money

San Diego SWAT Assumption

1. SD PD Proposed 2005 Budget = \$309,804,119

Total Large City SWAT Costs	\$12,347,262
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2. SWAT receives approximately .72%

Small City SWAT

# of small SWAT teams in Triangle	30
Average Annual Cost per team	\$50,000
Total Small City SWAT Costs	\$1,500,000

Small City SWAT Assumptions

1. The ave. cost-small city SWAT team = \$50,000.
(this is an average of the numbers from the surveys)
2. 30 SWAT Teams based on research

TOTAL ANNUAL LOCAL SWAT COSTS	\$13,847,262
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APPENDIX G

SWAT BUDGET 2002-2003	
SUPPLIES/SERVICES	\$540,587
CAPITAL	\$286,996
TOTAL DIRECT COSTS* (SEE NOTE 1)	\$4,478,719
TOTAL LVMPD BUDGET	\$319,284,454
% SWAT RECEIVES	1.40%
AUTH POSITIONS	
COMMISSIONED	31
CIVILIAN	1
CAPITAL REQUESTS	
4 REPLACEMENT COMPUTER	\$4,896
10 LASH HEADSETS	\$6,000
2 SNIPER RIFLES	\$5,000
15 TACT EAR PROTECTORS	\$7,500
2 BALLISTIC SHIELDS	\$2,200
11 REPLACEMENT VEHICLES	\$261,400
TOTAL	\$286,996
SUPPLIES/SERVICES REQUESTS	
OFFICE SUPPLIES	\$3,400
GROCERIES	\$1,400
OPERATING SUPPLIES	\$50,000
SMALL EQUIPMENT	\$19,055
MAINT-VEHICLES	\$28,700
FUEL	\$66,000

RENTAL	\$215,292
DATA PROCESSING	\$0
TELEPHONE	\$19,723
UTILITIES	\$30,000
LIABILITY INSURANCE	\$49,931
PROFESSIONAL SERVICES	\$1,600
ATTORNEY FEES	\$0
PSYCHIATRIST	\$0
MEDICAL SERVICES/SUPPLIES	\$350
MAINT-FACILITIES	\$20,720
MAINT-EQUIPMENT	\$10,350
POSTAGE	\$0
CONVENTIONS/SEMINARS	\$10,040
EDUCATION/TRAINING	\$10,340
TRAVEL/TRANSPORTATION	\$2,086
PRINTING/REPRODUCTION	\$100
DUES/SUBSCRIPTIONS	\$500
FEES/LICENSES	\$1,000
LAUNDRY	\$0
TOTAL	\$540,587

NOTES

*NOTE 1:
INCLUDES SALARY/BENEFITS
IN DIRECT COST TOTALS

**NOTE 2
BREAK OUT OF POSTIONS FY04-05
1 POLICE OFFICER LT
3 POLICE OFFICER SGT
26 POLICE OFFICERS
1 POLICE OFFICER IN TRAINING

SWAT BUDGET 2003-2004	
SUPPLIES/SERVICES	\$552,070
CAPITAL	\$550,440
TOTAL DIRECT COSTS* (SEE NOTE 1)	\$5,166,384
TOTAL LVMPD BUDGET	\$351,834,736
% SWAT RECEIVES	1.47%
AUTH POSITIONS	
COMMISSIONED	31
CIVILIAN	1
CAPITAL REQUESTS	
19 REPLACEMENT VEHICLES	\$534,545
3 REPLACEMENT SNIPER RIFLES	\$12,000
1 REPLACEMENT LAPTOP COMPUTER/MONITOR	\$3,895
TOTAL	\$550,440
SUPPLIES/SERVICES REQUESTS	
OFFICE SUPPLIES	\$2,000
GROCERIES	\$1,000
OPERATING SUPPLIES	\$30,000
SMALL EQUIPMENT	\$40,475
MAINT-VEHICLES	\$47,316
FUEL	\$78,548
RENTAL	\$211,703
DATA PROCESSING	\$0
TELEPHONE	\$0

UTILITIES	\$30,000
LIABILITY INSURANCE	\$42,420
PROFESSIONAL SERVICES	\$2,000
ATTORNEY FEES	\$0
PSYCHIATRIST	\$0
MEDICAL SERVICES/SUPPLIES	\$350
MAINT-FACILITIES	\$20,720
MAINT-EQUIPMENT	\$9,138
POSTAGE	\$0
CONVENTIONS/SEMINARS	\$0
EDUCATION/TRAINING	\$0
TRAVEL/TRANSPORTATION	\$35,000
PRINTING/REPRODUCTION	\$400
DUES/SUBSCRIPTIONS	\$500
FEES/LICENSES	\$500
LAUNDRY	\$0
TOTAL	\$552,070

SWAT BUDGET 2004-2005	
SUPPLIES/SERVICES	\$711,888
CAPITAL	\$60,000
TOTAL DIRECT COSTS* (SEE NOTE 1)	\$4,964,371
TOTAL LVMPD BUDGET	\$383,029,114
% SWAT RECEIVES	1.30%
AUTH POSITIONS** (SEE NOTE 2)	
COMMISSIONED	31
CIVILIAN	1
CAPITAL REQUESTS	
1 REPLACEMENT VEHICLE	\$45,000
1 THROW PHONE	\$15,000
TOTAL	\$60,000
SUPPLIES/SERVICES REQUESTS	
OFFICE SUPPLIES	\$4,500
GROCERIES	\$2,000
OPERATING SUPPLIES	\$130,942
SMALL EQUIPMENT	\$70,275
REPLACEMENT COMPUTER	
EQUIPMENT	\$3,638
MAINT-VEHICLES	\$9,695
FUEL	\$90,395

RENTAL	\$228,948
DATA PROCESSING	\$0
TELEPHONE	\$33,601
UTILITIES	\$30,000
LIABILITY INSURANCE	\$47,146
PROFESSIONAL SERVICES	\$800
ATTORNEY FEES	\$0
PSYCHIATRIST	\$0
MEDICAL SERVICES/SUPPLIES	\$0
MAINT-FACILITIES	\$23,798
MAINT-EQUIPMENT	\$5,000
POSTAGE	\$0
CONVENTIONS/SEMINARS	\$0
EDUCATION/TRAINING	\$0
TRAVEL/TRANSPORTATION	\$30,000
PRINTING/REPRODUCTION	\$400
DUES/SUBSCRIPTIONS	\$500
FEES/LICENSES	\$0
COMPUTER SOFTWARE LICENSES	\$250
LAUNDRY	\$0
TOTAL	\$711,888

APPENDIX H

INCOME STATEMENT - ASOC SWAT INITIATIVE

PHASE 1

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales Revenue	\$460,000	\$473,800	\$488,014	\$502,654	\$517,734
Less Expenses					
Payments on Equipment	\$65,949	\$65,949	\$65,949	\$65,949	\$65,949
Payments on Facilities	\$36,000	\$37,080	\$38,192	\$39,338	\$40,518
Capital Expenses	\$20,000	\$0	\$0	\$0	\$0
Personnel Expenses	\$300,000	\$309,000	\$318,270	\$327,818	\$337,653
Supply/Services Expenses	\$0	\$0	\$0	\$0	\$0
Depreciation Expenses	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$421,949	\$412,029	\$422,411	\$433,105	\$444,120
Income before Income Taxes (federal & state)	\$38,051	\$61,771	\$65,603	\$69,549	\$73,614
Income Taxes (34% federal, 8.84% state)	\$16,301	\$26,463	\$28,104	\$29,795	\$31,536
Net Income (Loss)	\$21,750	\$35,308	\$37,498	\$39,754	\$42,078
PROFIT MARGIN	4.7%	7.5%	7.7%	7.9%	8.1%

PD-30*\$10,000, Fed-6*\$20,000
 LAPD, Sheriff-2*\$20,000(3% growth/yr.)
 (\$250,000 loan, 5 yrs, 10%, equipment)
 (\$3000 office rent)(3% inc./yr.)
 (Initial office supplies)
 (3% increase)

ASSUMPTIONS

- Sales Revenue** - Police Dpts. = 30*\$10,000. Fed Agencies = 6*\$20,000. LAPD, Sheriff Dept. SWAT=2*\$20,000
3% growth per year
- Payments on Equipment** - \$250,000 loan for 5 yrs. at 10% interest
- Payment on Facilities** - \$3000 per month office rent. 3% increase per year.
- Capital Expenses** - 1st year initial office supply purchases
- Personnel Expenses** - 3% increase per year.

**PHASE
1**

CASH FLOW-ASOC SWAT INITIATIVE

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash Balance	\$0	\$21,750	\$57,058	\$94,557	\$134,311
Cash Flow from Operating Activities					
Earnings	\$460,000	\$473,800	\$488,014	\$502,654	\$517,734
Operating Expenses (all expenses - payments)	\$320,000	\$309,000	\$318,270	\$327,818	\$337,653
Income Taxes	\$16,301	\$26,463	\$28,104	\$29,795	\$31,536
Net Cash Flow from Operating Activities	\$123,699	\$138,337	\$141,640	\$145,041	\$148,545
Cash Flow from Investing Activities					
Payments on Equipment	\$65,949	\$65,949	\$65,949	\$65,949	\$65,949
Payments on Facilities	\$36,000	\$37,080	\$38,192	\$39,338	\$40,518
	-	-	-	-	-
Net Cash Flow from Investing Activities	\$101,949	-\$103,029	-\$104,141	\$105,287	-\$106,467
Net Change in Cash	\$21,750	\$35,308	\$37,499	\$39,754	\$42,078
Beginning Cash Balance	\$0	\$21,750	\$57,058	\$94,557	\$134,311
Ending Cash Balance	\$21,750	\$57,058	\$94,557	\$134,311	\$176,389

ASSUMPTIONS

No financing activities because ASOC is a private company

Includes start-up costs

Earnings = Revenues from income statement.

Operating expenses = salaries + initial furniture costs for 1st year and salaries for years following. 3% inc. per year.

Salaries = 3* \$100,000 w/ 3% inc./yr.

Taxes = 42.84% (include state and federal taxes)

Payments on Equipment = Loan for \$250,000 communication equipment. Includes 3% increase per year for rent.

Payments on facilities = \$3000/month office rent

APPENDIX I

INCOME STATEMENT - ASOC - PHASE 2

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales Revenue	\$5,250,000	\$5,407,500	\$5,569,725	\$5,736,817	\$5,908,921
Less Expenses					
Payments on Equipment	\$106,824	\$106,824	\$106,824	\$106,824	\$106,824
Payments on Facilities	\$206,223	\$206,223	\$206,223	\$206,223	\$206,223
Capital Expenses	\$70,000	\$72,100	\$74,263	\$76,491	\$78,786
Personnel Expenses	\$2,336,474	\$2,406,568	\$2,478,765	\$2,553,128	\$2,629,722
Supply/Services Expenses	\$825,170	\$849,925	\$875,423	\$901,686	\$928,736
Depreciation Expenses	106,930	106,930	106,930	106,930	106,930
Total Expenses	\$3,651,621	\$3,748,570	\$3,848,428	\$3,951,282	\$4,057,221
Income before Income Taxes	\$1,598,379	\$1,658,930	\$1,721,297	\$1,785,535	\$1,851,700
Income Taxes	\$684,746	\$710,685	\$737,404	\$764,923	\$793,268
Net Income (Loss)	\$913,633	\$948,244	\$983,893	\$1,020,612	\$1,058,432
PROFIT MARGIN	17.4%	17.5%	17.7%	17.8%	17.9%

ASSUMPTIONS

Sales Revenue - 50% of cities = \$50,000/city*15=\$750,000. 50% of Fed Agencies=\$4.5M

3% increase in revenues per year

Payments on Equipment - 5 year loan at 10% interest.

Payment on Facilities - 10 year loan at 6.25% interest.

Personnel Expenses - 3% increase per year.

Supply/Services Expenses - 3% increase per year.

Depreciation Expenses - Facility - \$1M salvage value, 20 year useful life.

Depreciation Expenses - Equipment - \$200,000 salvage value, 5 year useful life.

Income Taxes - 34% federal, 8.84% state

CASH FLOW - ASOC - PHASE 2

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash Balance	\$0	\$1,020,563	\$2,075,738	\$3,166,561	\$4,294,103
Cash Flow from Operating Activities					
Earnings	\$5,250,000	\$5,407,500	\$5,569,725	\$5,736,817	\$5,908,921
Operating Expenses (all expenses - payments)	\$3,231,644	\$3,328,593	\$3,428,451	\$3,531,305	\$3,637,244
Taxes	\$684,746	\$710,685	\$737,404	\$764,923	\$793,268
Net Cash Flow from Operating Activities	\$1,333,610	\$1,368,222	\$1,403,870	\$1,440,589	\$1,478,409
Cash Flow from Investing Activities					
Payments on Equipment	\$106,824	\$106,824	\$106,824	\$106,824	\$106,824
Payments on Facilities	\$206,223	\$206,223	\$206,223	\$206,223	\$206,223
Net Cash Flow from Investing Activities	-\$313,047	-\$313,047	-\$313,047	-\$313,047	-\$313,047
Net Change in Cash	\$1,020,563	\$1,055,175	\$1,090,823	\$1,127,542	\$1,165,362
Beginning Cash Balance	\$0	\$1,020,563	\$2,075,738	\$3,166,561	\$4,294,103
Ending Cash Balance	\$1,020,563	\$2,075,738	\$3,166,561	\$4,294,103	\$5,459,465

ASSUMPTIONS

No financing activities because ASOC is a private company

Includes start-up costs

Earnings = Revenues from income statement.

Operating expenses = All expenses except for payments on equipment and facilities. 3% inc. per year.

Taxes = 42.84% (include state and federal taxes)

Payments on Equipment = Payments same as income statement.

Payments on facilities = Payments same as income statement.

APPENDIX J

INCOME STATEMENT - ASOC - PHASE 3

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales Revenue	\$12,405,228	\$12,777,385	\$13,160,706	\$13,555,528	\$13,962,193
Less Expenses					
Payments on Equipment	\$594,230	\$594,230	\$594,230	\$594,230	\$594,230
Payments on Facilities	\$343,704	\$343,704	\$343,704	\$343,704	\$343,704
Capital Expenses	\$170,000	\$175,100	\$180,353	\$185,764	\$191,336
Personnel Expenses	\$5,686,964	\$5,857,573	\$6,033,300	\$6,214,299	\$6,400,728
Supply/Services Expenses	\$1,996,510	\$2,056,405	\$2,118,097	\$2,181,640	\$2,247,090
Depreciation Expenses	500,000	500,000	500,000	500,000	500,000
Total Expenses	\$9,291,408	\$9,527,012	\$9,769,685	\$10,019,637	\$10,277,088
Income before Income Taxes (federal & state)	\$3,113,820	\$3,250,373	\$3,391,022	\$3,535,890	\$3,685,105
Income Taxes (34% federal, 8.84% state)	\$1,333,960	\$1,392,460	\$1,452,714	\$1,514,775	\$1,578,699
Net Income (Loss)	\$1,779,860	\$1,857,913	\$1,938,308	\$2,021,115	\$2,106,406
PROFIT MARGIN	14.3%	14.5%	14.7%	14.9%	15.1%

ASSUMPTIONS

Sales Revenue - Phase 2 Revenue plus Las Vegas and San Diego SWAT contracts.

3% increase in revenues per year

Payments on Equipment - 5 year loan at 10% interest.

Payment on Facilities - 10 year loan at 6.25% interest.

Personnel Expenses - 3% increase per year.

Supply/Services Expenses - 3% increase per year.

Depreciation Expenses - Facility - \$1.5M salvage value, 20 year useful life.

Depreciation Expenses - Equipment - \$500,000 salvage value, 5 year useful life.

Income Taxes - 34% federal, 8.84% state

CASH FLOW - ASOC - PHASE 3

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash Balance	\$0	\$2,279,860	\$4,637,773	\$7,076,080	\$9,597,196
Cash Flow from Operating Activities					
Earnings	\$12,405,228	\$12,777,385	\$13,160,706	\$13,555,528	\$13,962,193
Operating Expenses (all expenses - payments)	\$7,853,474	\$8,089,078	\$8,331,751	\$8,581,703	\$8,839,154
Taxes (34% fed., 8.84% state)	\$1,333,960	\$1,392,460	\$1,452,714	\$1,514,775	\$1,578,699
Net Cash Flow from Operating Activities	\$3,217,794	\$3,295,847	\$3,376,242	\$3,459,049	\$3,544,340
Cash Flow from Investing Activities					
Payments on Equipment	\$594,230	\$594,230	\$594,230	\$594,230	\$594,230
Payments on Facilities	\$343,704	\$343,704	\$343,704	\$343,704	\$343,704
Net Cash Flow from Investing Activities	-\$937,934	-\$937,934	-\$937,934	-\$937,934	-\$937,934
Net Change in Cash	\$2,279,860	\$2,357,913	\$2,438,308	\$2,521,115	\$2,606,406
Beginning Cash Balance	\$0	\$2,279,860	\$4,637,773	\$7,076,080	\$9,597,196
Ending Cash Balance	\$2,279,860	\$4,637,773	\$7,076,080	\$9,597,196	\$12,203,602

ASSUMPTIONS

No financing activities because ASOC is a private company

Includes start-up costs

Earnings = Revenues from income statement.

Operating expenses = All expenses except for payments on equipment and facilities. 3% inc. per year.

Taxes = 42.84% (include state and federal taxes)

Payments on Equipment = Payments same as income statement.

Payments on facilities = Payments same as income statement.

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