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HOW TO ACHIEVE $11 BILLION IN SAVINGS FROM PRIVATIZATION IN FY 1996

Ronald D. Utt, Ph.D.
Visiting Fellow

INTRODUCTION

President Bill Clinton's FY 1996 federal budget plan includes a significant number of privatization proposals that will lead to several billion dollars in sales proceeds if they are enacted. Many of the privatization targets in the Clinton budget were evaluated and proposed first by the Reagan Administration,[1] and much of the analytical and legal work for the projects already has been completed, so it would be easy for the government to implement these and other well-developed privatization initiatives before the end of the next fiscal year. Listed below are nine major government activities that should quickly be sold or transferred to the private sector. Also listed are a series of legislative reforms that would permit agencies to increase the potential savings from privatization and competitive contracting. These nine privatization initiatives could provide approximately $11.4 billion in budgetary savings or sales receipts within the first 12 to 18 months of implementation and over $8 billion in annual savings thereafter.

CANDIDATES FOR PRIVATIZATION

❶ The Air Traffic Control System

Now part of the Federal Aviation Administration (FAA) within the Department of Transportation, the Air Traffic Control System (ATC) operates the airport control towers and regional en route centers. It should be privatized. First endorsed officially in 1988 by President Reagan's Commission on Privatization,[2] this proposal now has the support of the Clinton Administration. On December 19, 1994, Secretary of Transportation Federico Peña stated that FAA's "Air Traffic Control operations... will be transferred into a private or government corporation wholly funded by user fees."

1 See for example, *Privatization: Toward More Effective Government*, Report of the President's Commission on Privatization, David F. Linowes, Chairman, U.S. Government Printing Office, March 1988.

2 *Ibid.*, p. 65.

This commitment was reconfirmed in the President's FY 1996 budget. A recent study prepared for the Department of Transportation estimates that a privatized ATC would lead to a substantial reduction in the financial burden on taxpayers as a result of savings that could be as high as $18 billion between 1996 and 2005.[3]

❷ The U.S. Enrichment Corporation

The government's uranium enrichment program prepares fuel for civilian use in nuclear power plants in the United States and abroad. The Energy Policy Act of 1993 removed the program from the Department of Energy and placed it in a newly created government corporation called the U.S. Enrichment Corporation. The same Act allowed for the operation to become wholly private at some point in the future. Given its reported book net worth of $1.4 billion and a recent $20 million dividend payment the Corporation was able to make to the Treasury, that time is now.[4] Congress immediately should remove the many needless obstacles and impediments placed on the Corporation by the 1993 Act so that the Corporation can be made more attractive to private buyers and investors and sold in 1996. A businesslike enrichment corporation should bring as much as one billion dollars if freed from oppressive and unnecessary congressional restrictions.

❸ The Naval Petroleum Reserve

Established in 1912 to fuel the fleet, the reserves held at Elk Hills (California) and Teapot Dome (Wyoming) have long since ceased to have any strategic value, and the oil pumped from them is sold into the commercial market for general consumer use. This privatization initiative, first proposed by the Reagan Administration and endorsed by the Privatization Commission in 1988, has been reintroduced by the Clinton Administration. Research and study were completed in the late 1980s, and the proposal is now on the shelf and ready to go in 1995 or 1996. Estimated proceeds from the sale are $1.6 billion at current oil prices.[5] H.R. 887, introduced by Representative Richard Zimmer (R-NJ) would require the sale of the reserves within one year.

❹ Miscellaneous Assets, Including "Non-Wilderness" Land

The federal government holds a vast portfolio of land assets. Totaling approximately 770 million acres, much of this land is "wilderness" held by the Bureau of Land Management, the National Forest Service, the National Park Service, and the Fish and Wildlife Service.

Most of this land either is deemed environmentally sensitive or is already subject to approved recreational and commercial uses, but a small yet potentially very valuable portion is mostly urban commercial in nature. The National Institutes of Health, for example, owns a large piece of underdeveloped land in the upscale Washington suburb of Bethesda, and the General Accounting Office estimates the value of just U.S. government land holdings *abroad*—including undeveloped property in downtown Tokyo—at $12 billion.

Congress should require that within the next three months, all government departments and agencies conduct a comprehensive and detailed inventory of all their tangible assets, including land, structures, vehicles, aircraft, and ships, in order to determine which assets could be sold and which assets or services might be acquired more economically through leasing from the private sector. The

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3 "Air Traffic Control: Analysis of Illustrative Corporate Financial Scenarios," Technical Report Prepared by Corporation Assessment Task Force for the Executive Oversight Committee, U.S. Department of Transportation, May 3, 1994, p. 4. See also Robert W. Poole, Jr., "How to Spin Off Air Traffic Control," The Reason Foundation, August 1993, and Robert W. Poole, Jr., "Restructuring the Air Traffic Control System," in Edward L. Hudgins and Ronald D. Utt, eds., *How Privatization Can Solve America's Infrastructure Crisis* (Washington, D.C.: The Heritage Foundation, 1992).

4 "United States Enrichment Corporation Annual Report, 1993," p. 13.

5 *Budget of the United States Government, Fiscal Year 1996*, p. 148.

goal should be to sell one billion dollars of miscellaneous assets in each of the next several fiscal years.

❺ The Power Marketing Administrations

The Department of Energy owns five power marketing administrations (PMAs), among them the Alaska Power Marketing Administration and Southeastern Power Marketing Administration. These distribute and sell electric power generated by government-owned and government-operated dams. Plans to privatize the Alaska Administration were developed in the mid-1980s, and a deal was negotiated with a prospective buyer. Although the sale has been endorsed by all subsequent Administrations, congressional foot-dragging has slowed the process. It is hoped this will change in response to President Clinton's proposal to privatize four of the five federal power marketing administrations.

Although the proposal to sell the Southeastern Power Administration is not as well developed, it should be relatively easy to privatize because of its limited physical assets and because it accounts for only 2 percent of the power sold in its marketing area. The sale of the Alaska Administration is ready to go, and Congress should insist that it be sold by June 1995. Net proceeds from the Alaska sale are projected at $85 million, while those from the Southeastern sale are projected at $500 million.[6] H.R. 310, introduced by Representative Scott Klug (R-WI), authorizes the Secretary of Energy to privatize the PMAs.

❻ The Corporation For Public Broadcasting

The CPB's programming development capabilities are a potentially valuable asset at a time when the number of television and radio broadcasting channels is rising faster than the volume of quality product that can be delivered. As a result, several major communications firms have expressed an interest in taking over and funding the CPB's programming and distribution capabilities. To date, the CPB has been the beneficiary of generous federal support. Since 1985—that is, during a time in which many government programs have been cut—federal spending on the CPB rose by 94 percent, compared to 60 percent for the budget as a whole. Shifting the CPB to the private sector would save the government more than $300 billion per year in outlays and convert a nonprofit tax user into a profitable taxpayer in one of the fastest-growing segments of the American economy.

❼ Federal Loan Assets

Among its many other activities, the federal government is an active lender to certain eligible borrowers—including rural home owners, college students, and small businesses—and over time has amassed a portfolio of loan assets whose face value reached $155 billion as of 1994.[7] For the most part, this loan portfolio is poorly managed by the government agencies that service it. Record-keeping is inadequate, and the rates of delinquency, defaults, and foreclosures are higher than industry norms. Experience with limited federal loan asset sales in the mid-1980s indicates that the federal government can receive as much as 80 cents on the dollar when such loans are sold to private-sector financial institutions and that, once these loans are in the hands of professional loan servicing organizations, delinquency rates fall by half and foreclosures by as much as 80 percent.

Assuming a recovery rate of from 60 percent to 80 percent, the sale of the $155 billion loan portfolio could yield cash proceeds of between $93 billion and $124 billion, which could be used to retire a portion of the national debt or to offset other federal liabilities. While on the surface such a transaction might appear to be nothing more than the exchange of one asset for another, in fact it would yield substantial annual savings in the form of avoided government loan servicing costs. Ex-

6 *Ibid.*, pp. 148, 196.

7 *Analytical Perspectives, Budget of the United States Government, Fiscal Year 1996*, Table 9-1, p. 122.

perience with private servicing of federal loans reveals a savings of $1.2 billion over five years on an $18 billion portfolio using conservative calculations. If such a rate of savings held up across the federal portfolio, the savings on the existing $155 billion portfolio would be just over $2 billion per year.

To put it another way, the market value of the government's loan assets reflects the private sector's greater efficiency in managing loans. Thus, the sale of the loan portfolio would mean a net gain to the taxpayer when compared with the present value of the government's likely stream of income from the loans.

❽ Competitive Contracting of Government Services

Contracting out government services to the private sector offers the new Congress the opportunity to make substantial cuts in federal spending—as much as $9 billion per year—even without reducing the quality or volume of *essential* constituent services.[8] Indeed, if properly implemented, an aggressive program of contracting out could lead to improved government services at significant budgetary savings.

Contracting out is the process by which the government hires, through competitive bids, qualified private businesses to perform essential services on its behalf. Typically, state and municipal governments have used contracting out to provide support services such as data processing, trash pickup, landscaping, building maintenance, motor pools, printing, and library management. The savings to these lower levels of government have been substantial, leading to a sharp increase in contracting in recent years. While much of the federal contracting experience to date has focused on routine services, there is no reason why more sophisticated and complex services could not be contracted out. The Defense Department has demonstrated that contractors can perform successfully in a number of sensitive and sophisticated areas vital to America's national defense.

Studies by the General Accounting Office and the Office of Management and Budget demonstrate that competitive contracting at the federal level saves, on average, $9,000 per year for each full-time government employment position reviewed. With annual estimated savings at this level under the government's contracting (A-76) process, and with as many as one million federal positions sufficiently commercial to qualify for competitive review, potential budgetary savings of up to $9 billion per year are attainable if the program is used fully. If it were phased in over ten years, 100,000 positions could be reviewed each year with incremental savings of $900 million per year.[9] H.R. 28, introduced by Representative John J. Duncan (R-TN), would require OMB to implement such an aggressive contracting out program for the federal government.

❾ The Government Printing Office

Activities of the Government Printing Office, because it is an agency of Congress, could be transferred to the private sector at Congress's discretion and with no executive branch interference. Under current law, the GPO has a legal monopoly; all of the federal government's printing requirements must be fulfilled by the GPO or by a private contractor selected and managed by it. When the GPO contracts out an agency's printing needs to the private sector, it bills the agency an additional 6 percent to 9 percent for its own "services."

Advances in printing technology and a highly competitive private printing market make the GPO a costly luxury. The GPO's excessively generous pay—averaging more than $50,000 per employee, including skilled craft pay for janitors—and surplus workforce make it the area's highest-cost

8 "Essential" is emphasized here with the understanding that any nonessential services ought to be terminated.

9 *Privatization: Toward More Effective Government*, p. 130.

printer. According to a GAO study, "High administrative and high labor costs—which GPO estimates are 50 percent more than the printing industry as a whole—are passed on to GPO customers."[10] The GPO should be made financially independent, charged market rents for its costly downtown plant and office space, and forced to compete on an equal footing with private, taxpaying printers for the government's business. While this change would mean a downsized GPO, significant layoffs could be accomplished without hardship because 2,000 of GPO's 4,200 workers are eligible for retirement.[11] H. Res. 24, introduced by Representative Scott Klug (R-WI), proposes to reduce the GPO workforce from 4,200 to 800 through competitive contracting, while legislation to be introduced by Rpresentative Jennifer Dunn (D-WA) would shift all government printing to the private sector and authorize the sale of remaining GPO assets and land.

The potential savings cannot be estimated accurately but would arise from a sharp reduction in the government's annual printing costs and the sale value of the GPO's well-located land and buildings.

ELIMINATING LEGISLATIVE OBSTACLES AND PROHIBITIONS

No privatization program or initiative will be successful unless Congress first removes the many legislative obstacles and prohibitions enacted by past Congresses. Typical of the obstacles that prevent or discourage contracting out are such things as minimum staffing requirements and employment floors on agencies, outright prohibitions on contracting of specific functions, denial of funds for contracting purposes, and removal of contracting authority from certain government officials. A sample of these past congressional prohibitions is listed in the appendix.

In addition to these bureaucratic restrictions, the application of the Service Contract Act to private firms providing government services forces these firms to raise their proposed wage costs above market levels when competing for government contracts. This makes them less competitive with government workers already in place, whose wages may be less than the so-called prevailing wages imposed on contractors by the Act. Thus, even when the contractor wins the bid and performs the service for less than the government charged itself, the final costs may still be higher than necessary because of the inflationary provisions of the Service Contract Act.

The Service Contract Act also inflates contracting out costs even when there is no competing federal workforce. For example, when the Environmental Protection Agency hires a private contractor to clean up a hazardous waste site under the Superfund program, the contractor's wages must conform to wages designated under the Act, even if qualified workers are available for less.

Congress should follow the 1983 recommendation of its own General Accounting Office and repeal the Service Contract Act. H.R. 246, introduced by Representative Harris Fawell (R-IL), would repeal the Service Contract Act. The Davis-Bacon Act has the same effect on private contractors engaged in construction and repair for the government and, unless it is repealed, will be a serious obstacle to obtaining the full benefits of infrastructure privatization. If it were eliminated, annual budgetary savings of between $600 million and $1 billion would be achieved.[12] S. 141, introduced by Senator Nancy Landon Kassebaum (R-KS), and H.R. 500, introduced by Representative Cass Ballenger (R-NC), would repeal the Davis-Bacon Act in its entirety, as recommended by the GAO in 1979.

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10 "Government Printing Office: Monopoly-Like Status Contributes to Inefficiency and Ineffectiveness," U.S. General Accounting Office Report to the Joint Committee on Printing, September 1990, p. 4.

11 Source: Joint Committee on Printing.

12 Floor Statement of Senator Nancy Landon Kassebaum, January 4, 1995.

In the field of mass transit, other federal regulations seriously limit the extent to which regional and metropolitan transit authorities can reduce costs and improve service through contracting. Section 13(c) of the 1964 Urban Mass Transit Act, for instance, requires transit authorities receiving federal grants to hold special negotiations with transit unions. Moreover, local mass transit workers must receive six years severance pay in the event their jobs are lost because of contracting. This obviously adds a heavy and unreasonable cost to any local contracting; the loss to local transit authorities in foregone savings is estimated at between $2 billion to $3 billion per year. Congress should repeal Section 13(c) in order to free local transit agencies from this costly and onerous federal regulation. This in turn would eliminate the need for $1 billion in annual federal operating grants to local transit authorities.

How Congress Has Blocked Privatization

AGRICULTURE

- ✗ Minimum employment levels exist at the Farmers Home Administration, Agricultural Stabilization and Conservation Service, and the Soil Conservation Service.
- ✗ The Farmers Home Administration is prohibited from contracting with private debt collection firms to collect delinquent payments.
- ✗ Agriculture is precluded from selling loans made by the Agricultural Credit Insurance Fund.

COMMERCE

- ✗ NOAA is prohibited from commercializing meteorological satellites.
- ✗ NOAA is required to use appropriated funds for certain projects.
- ✗ The Department of Commerce is prohibited from selling its economic development loans.
- ✗ The National Technical Information Service is prohibited from contracting out services.

DEFENSE

- ✗ Minimum civilian employment levels exist at Army depots.
- ✗ The Department of Defense is prohibited from contracting out security and firefighting services.
- ✗ The Crane Army Ammunition Activity and McAlester Army Ammunition Plants are prohibited from contracting out services.
- ✗ The Department of Defense is prohibited from contracting out core logistics maintenance functions.
- ✗ The Philadelphia Defense Personnel Support Center is prohibited from contracting out services.
- ✗ The Department of Defense is prohibited from contracting out any activity performed by 10 or more civilian employees.
- ✗ The Department of Defense is prohibited from contracting out logistics activities to non-governmental personnel.
- ✗ The Department of Defense is prohibited from contracting out entire medical facilities.
- ✗ Officers at Fort Benjamin Harrison, Indiana are prohibited from A-76 procedures.[13]
- ✗ A-76 implementation is impeded by complicated requirements for notice and reporting.
- ✗ The Army Corps of Engineers is prohibited from contracting out reservoirs in Mississippi.
- ✗ The Army Corps of Engineers is prohibited from contracting out the operations and maintenance of hydroelectric power facilities.

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13 A-76 is the title of the OMB circular that outlines and regulates the process and procedures for federal contracting out of competition.

- ✗ Only installation commanders have the authority to decide which commercial activities will be subject to A-76 review (Nichols amendment).

ENERGY

- ✗ The Department of Energy is prohibited from studying alternative pricing structures.
- ✗ The Department of Energy is prohibited from studying the sale of the Power Marketing Administrations, except Alaska.
- ✗ The Department of Energy is prohibited from using appropriations for the privatization of the Naval Petroleum Reserves.
- ✗ The Department of Energy is prohibited from studying or proposing the privatization of the uranium enrichment programs.

GENERAL SERVICES ADMINISTRATION

- ✗ GSA is prohibited from contracting out certain intra-agency service positions.

HEALTH AND HUMAN SERVICES

- ✗ The FDA is prohibited from adopting user fees.
- ✗ The Social Security Administration is prohibited from contracting outside the United States for printing services.

HOUSING AND URBAN DEVELOPMENT

- ✗ HUD is prevented from selling section 202 loans.
- ✗ Minimum employment levels exist within the Public and Indian Housing Program.
- ✗ HUD is prohibited from selling section 312 direct loans.

INTERIOR

- ✗ The National Park Service, Fish and Wildlife Service and Bureau of Land Management are prohibited from contracting out any services.

JUSTICE

- ✗ The Department of Justice is prohibited from contracting out any functions involving law enforcement, litigation or the administration of justice.
- ✗ The Department of Justice is prohibited from the sale of loans or guarantees held by the Federal Financial Bank.

LABOR

- ✗ The Job Corps is forbidden to contract out any Civilian Conservation Center.

TRANSPORTATION

- ✗ The FAA is prohibited from contracting out maintenance for national airways system facilities.
- ✗ The Coast Guard must delay the A-76 process for congressional review.
- ✗ Minimum employment levels exist within the FAA for air traffic controllers.

- ✗ The Department of Transportation is prohibited from funding changes in the current federal status of the Transportation Systems Center or the Turner-Fairbank Highway Research Center.

TREASURY

- ✗ Minimum employment levels exist at the Customs Service despite the fact that automation has reduced the need for large staffing levels.

VETERANS AFFAIRS

- ✗ Minimum employment levels exist within the VA medical care staff.
- ✗ The Department of Medicine and Surgery is prohibited from contracting out certain activities.

RAILROAD RETIREMENT BOARD

- ✗ Minimum employment levels exist within the Railroad Unemployment Insurance Trust Fund.

SMALL BUSINESS ADMINISTRATION

- ✗ The SBA is prohibited from selling loans held or guaranteed by SBA and held by FFB.