



Highlights of [GAO-05-433](#), a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

Why GAO Did This Study

Department of Defense (DOD) installations have about 2,600 electric, water, wastewater, and natural gas utility systems valued at about \$50 billion. In 1997, DOD decided that utility privatization was the preferred method for improving utility systems and services and the Congress approved legislative authority for privatizing utility systems at military installations with Public Law No. 105-85.

Because of the costs and long-term implications of DOD's utility privatization program, GAO reviewed the program to determine (1) the program's status, (2) whether the services' estimates of long-term savings from utility privatization projects are reliable, (3) how DOD implements the fair market value requirement for conveyed utility systems, and (4) whether other issues impact the effectiveness of DOD's execution of the program.

What GAO Recommends

GAO recommends that DOD take several actions designed to help ensure the reliability of the economic analyses for proposed utility privatization projects and improve the guidance and procedures used to implement and oversee the utility privatization program. DOD did not agree with the recommendations. GAO believes its recommendations continue to have merit.

www.gao.gov/cgi-bin/getrpt?GAO-05-433.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman at (202) 512-5581 or holmanb@gao.gov.

DEFENSE INFRASTRUCTURE

Management Issues Requiring Attention in Utility Privatization

What GAO Found

DOD's progress in implementing the utility privatization program has been slower than expected, largely because of the complexities of the solicitation and contracting processes. In 1997, DOD initially expected that the services would privatize or exempt all utility systems by January 2000. Yet, after spending about \$248 million on program implementation, the services had privatized only 94 systems and exempted 311 systems of the 1,499 utility systems determined to be available for privatization as of December 31, 2004. Although DOD reset implementation target dates and established September 2005 as the current goal for the services to make decisions to privatize or exempt all systems, DOD officials stated that it was unlikely that the services would meet the revised goal.

Utility privatization can provide for quicker system improvements than otherwise might be available; however, there are questions about program savings. Although the services' economic analyses estimate that utility systems privatized to date will reduce the government's costs for utility services, GAO questions the estimates because they give an unrealistic sense of savings to a program that increases ongoing government utility costs in order to pay contractors for enhanced utility services and capital improvements. Other base support services could suffer unless budgets are adjusted to reflect these increased costs. Moreover, GAO found that long-term cost comparisons did not depict actual expected costs of continued government ownership in the event that systems were not privatized and DOD had not taken steps to ensure that the estimates were otherwise reliable. As a result, GAO found in the seven cases it reviewed that the services' analyses included inaccuracies that tended to favor the privatization option over continued government ownership.

Although the services are permitted latitude in ensuring that the government receives fair market value for systems conveyed to privatization contractors, in some cases implementation has resulted in higher contract costs for utility services. Contractors normally include the full amounts they paid for conveyances in the associated utility services contracts and, therefore, the government will pay back the amounts received over time. In some cases, contractors also include additional amounts in the contracts to cover costs associated with the fair market value payment. Thus, implementing the fair market value requirement in such cases results in higher contract costs because the government will pay back more than it will receive for conveying the systems.

Two additional issues of concern identified by GAO related to limited oversight of privatization contracts and DOD's preferred practice of permanently conveying utility systems to contractors rather than using more limited arrangements which, according to DOD consultant reports, is a more prevalent private sector practice and one which may offer greater safeguards to the government.