



Highlights of [GAO-06-914](#), a report to congressional committees

## 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 privatization was the preferred method for improving utility systems, and Congress approved legislative authority for privatizing DOD's utility systems with Public Law No. 105-85. DOD estimates that some utility privatization contracts will cost over \$100 million. In a May 2005 report, GAO identified several management weaknesses in DOD's implementation of the program.

The Fiscal Year 2006 National Defense Authorization Act required GAO to evaluate and report on changes to the utility privatization program since May 2005.

Accordingly, this report updates the status of the program and discusses the effect of DOD's changes on the concerns noted last year. To conduct this review, GAO summarized program status and costs, assessed DOD's changes to program guidance and in other areas, and reviewed the services' implementation of the changes.

## What GAO Recommends

GAO is making seven recommendations to improve the management of the utility privatization program. DOD generally agreed with six and indicated disagreement with one recommendation. Still, GAO believes this recommendation continues to have merit.

[www.gao.gov/cgi-bin/getrpt?GAO-06-914](http://www.gao.gov/cgi-bin/getrpt?GAO-06-914).

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](mailto:holmanb@gao.gov).

# DEFENSE INFRASTRUCTURE

## Actions Taken to Improve the Management of Utility Privatization, but Some Concerns Remain

### What GAO Found

DOD's progress in implementing the utility privatization program has been slower than expected and the estimated completion date has slipped from the department's target of September 2005 to September 2011. DOD attributed the delays to the complexity of the program and to the services' decision to suspend and reassess the management of the program between October 2005 and March 2006. Since May 2005, the services privatized 14 utility systems under the legislative authority for the program, bringing the total number of awarded projects to 81. However, the services have awarded no projects since DOD issued new program guidance in November 2005. Meanwhile, the services' total estimated program implementation costs through fiscal year 2006 have increased to \$285 million, and more funds will be required before the program is completed in 2011.

Since GAO's May 2005 report, DOD has issued new guidance and required changes in procedures. If fully implemented, these changes should result in more reliable economic analyses, improved budgetary consideration of increased utility costs, enhanced oversight of privatization contracts, and reduced instances where contractors recover more than the fair market value paid for system conveyances. However, a number of concerns from the May 2005 report remain. For example:

- Although DOD made changes to improve the reliability of project economic analyses by requiring independent reviews, GAO reviewed 10 economic analyses and found reliability issues that had not been identified during the independent reviews.
- DOD directed the services to adequately consider in their budgets the increased costs resulting from utility privatization. However, questions remain over the availability of the funds needed to complete the program because the services estimate that they will need \$453 million more than is currently programmed to pay costs associated with remaining utility systems that might be privatized.
- Although DOD made many changes to improve contract administration and oversight, it may take some time to fully implement the changes as new privatization contracts are awarded. GAO's review of five projects awarded prior to DOD's changes found continuing questions about the adequacy of resources provided to perform oversight and the lack of required plans for overseeing contractor performance.
- It is too early in the program's implementation to know to what extent DOD's efforts will be successful in ensuring equitable periodic contract price adjustments and limiting long-term cost growth in the utility privatization program. However, GAO found indications that cost growth may become a challenge.
- DOD did not change its guidance to require that project economic analyses depict the actual expected costs of continued government ownership if the systems are not privatized. Therefore, DOD's reported \$650 million in long-term cost reductions is unrealistic.