May 2005

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.

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.


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.