

# Annual Privatization Report 2015

## Federal Government Privatization

By John Palatiello

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There was little action in 2014 to transfer commercial activities from federal agencies to the market. The partisan stalemate between congressional Republicans and a Senate and White House controlled by Democrats not only proved to be the second least productive in U.S. history in terms of legislation passed, but yielded little progress on privatization. With a few exceptions, there is seemingly little political will to advance various privatization tools, such as vouchers, asset sales, contracting out, divestiture, franchising, concessions or employee stock ownership plans (ESOPs).

One exception was bipartisan agreement on a veterans health care reform bill that emerged in the wake of well-publicized scandals at a government-run Veterans Administration (VA) hospital in Phoenix, Arizona. Investigations revealed that tens of thousands veterans were left waiting or never received care, resulting in the death of more than 35. The Veterans Access, Choice and Accountability Act of 2014, enacted in August, included a Choice Card program that permitted some veterans to receive private medical care if unable to secure an appointment at a VA medical facility within 30 days or residing more than 40 miles from the nearest VA medical facility.<sup>1</sup> Just six months later, the Obama administration submitted a fiscal year 2016 budget proposal to Congress that sought to reallocate funds away from the Choice Card to other programs within the VA.<sup>2</sup>

There were several smaller privatization successes during 2014. Among these:

- The General Services Administration announced in January it is closing its warehouses that served as a middleman between suppliers and federal agencies. GSA is transitioning out of the warehouse business and will no longer buy, ship or store office supplies, tools and other common-use retail items in favor of accepting agency orders, but will rely on its commercial partners to ship directly to customers.<sup>3</sup>
- The Pentagon began awarding contracts to private utility companies to assume ownership of, and take responsibility for, operating and maintaining water distribution systems, wastewater collection systems and natural gas distribution systems at military bases across the country.<sup>4</sup>
- The National Oceanic and Atmospheric Administration (NOAA) announced a plan to eliminate printing paper nautical charts. Under the plan, NOAA will privatize the printing of nautical charts, relying on commercial, NOAA-certified, print-on-demand providers as the only official sources to obtain paper nautical charts.<sup>5</sup>
- Private organizations have an opportunity to team up with the U.S. Customs and Border Protection to modernize and expand border crossings under a five-year pilot program authorized by Congress in a fiscal 2014 spending bill.<sup>6</sup>
- Airport screening by private contractors, rather than employees of the Transportation Security Administration (TSA) is likely to move more aggressively as a result of a provision in the fiscal 2014 omnibus appropriations legislation. President Obama signed the omnibus spending bill (H.R. 3547), which includes congressional report language saying that TSA "is expected to more proactively utilize the [Screening Partnership Program]" and "expeditiously approve the applications of airports seeking to participate in the program."<sup>7</sup> (For more discussion of private airport screening, see the Air Transportation section of Reason Foundation's *Annual Privatization Report 2015*.)
- The U.S. Department of Agriculture announced a plan to privatize poultry inspection in 2014. Private companies could assume inspection responsibilities, which the department estimated would speed up processing lines by 25%. The move is part of a modernization effort to redirect limited resources where needed the most, saving the agency an estimated \$30 million per year and lowering poultry production costs by \$256.6 million annually.<sup>8</sup>
- NASA announced it would award contracts to 23 small businesses to commercialize their research and work on advanced technologies. The NASA Small Business Technology Transfer Program negotiations were for possible contract awards worth up to a total of \$17.2 million.<sup>9</sup> Additionally, the space

agency awarded contracts to Boeing and Space Exploration Technologies (SpaceX) to begin transporting astronauts to the International Space Station (ISS) using private spacecraft. The commercial U.S. shuttle launches are expected to resume by 2017 if the companies complete NASA's certification process, including test flights with NASA astronauts to demonstrate spacecraft's ability to launch, maneuver in orbit and dock with the International Space Station, as well as return passengers safely to Earth.<sup>10</sup>

Aside from the passage of legislation designed to increase the federal and municipal use of public-private partnerships (PPPs) to develop or modernize water-related infrastructure (see discussion in the Local Government Privatization update of this report), other efforts to increase infrastructure investment through PPPs failed to foster agreement between Congress and the White House.

Still, the issue continues to attract the attention of policymakers. In September 2014, the House Committee on Transportation and Infrastructure's Panel on Public-Private Partnerships (P3 Panel) released its final report and recommendations on how to balance the needs of the public and private sector when undertaking P3s to finance the nation's infrastructure.<sup>11</sup> The final report makes recommendations to strengthen public sector capacity to better structure agreements and ensure the needs of the public sector are adequately protected. It also proposes improvements to traditional procurement processes to ensure better outcomes for all projects. The report includes a series of recommendations for breaking down barriers to P3s, and changes to federal programs to allow for partnerships to be more easily considered by states and localities. The report also recommends steps to ensure transparency and accountability for P3s, which is critical to fostering public support for such complex agreements.

The Transportation and Infrastructure Committee will use the panel's recommendations as a resource when considering future legislation, according to the committee's chairman, Rep. Bill Shuster (R-PA) and the P3 panel chair, Rep. John J. Duncan, Jr. (R-TN).<sup>12</sup>

The Obama administration also launched the Build America Investment Initiative to expand private investment and collaboration in major infrastructure sectors. "While private investment is not a substitute for government spending on infrastructure, we can better achieve a state-of-the-art infrastructure network by expanding the sources of investment and using those dollars, whether public or private, as effectively as possible," the Treasury Department wrote in a September 2014 report on innovative infrastructure financing.<sup>13</sup> The initiative calls for the Secretaries of the Treasury and Transportation to lead a working group to analyze how to increase public and private sector collaboration in infrastructure development, expand appropriate use of private

sector infrastructure financing, and achieve gains in productivity, efficiency and resilience. The Departments of the Treasury and Transportation hosted an infrastructure summit to discuss challenges and opportunities in infrastructure with state and local government officials, private investors in infrastructure, and representatives from labor organizations, public pension funds and other institutional investors. No action has been taken in Congress.<sup>14</sup>

Free market operation of government functions also suffered setbacks. Among these:

- An amendment in the U.S. House of Representatives to impose a limit on “insourcing”—the conversion of activities from contractor to government employee performance—in the Department of Defense was rejected 244-179. The proposal, submitted by Rep. Lynn Jenkins (R-KS), would have required a reverse OMB Circular A-76 public-private cost comparison and competition to justify bringing an activity in-house.<sup>15</sup>
- The White House itself was an insourcing participant when the Obama administration put the official presidential stenographers on the federal payroll, ending more than three decades in which the transcriptionists were provided by government contractors.<sup>16</sup>
- Municipal broadband was pushed by the Federal Communications Commission by preempting state and municipal broadband laws. Numerous state and local jurisdictions had enacted statutes prohibiting government competition with private enterprise in broadband services, but the Obama administration finds such laws inconsistent with FCC universal broadband goals.<sup>17</sup>
- Congress included a provision in the 2015 Defense Authorization Act to authorize the Pentagon to start a government lodging pilot for service members and civilians to see if requiring the use of government facilities when traveling would cut costs. DoD will report on the savings after six months and in fiscal 2019.<sup>18</sup>
- Finally, the U.S. Postal Service began to explore delivery of groceries and packaged foods. The concept called “customized delivery” would enable the Postal Service to handle freezer bags filled with foods or other packaged goods from sellers and deliver them to homes.<sup>19</sup> That activity earned the USPS the top spot on the Business Coalition for Fair Competition’s (BCFC) list of the top 10 most egregious examples of unfair government-sponsored competition with private enterprise of 2014.<sup>20</sup> The list includes federal, state and local examples of government operation of commercially available activities.

Last, previous privatization initiatives in the aviation sector are not proceeding to their full potential, the federal government's watchdog agency reported. A 1996 law Congress approved to encourage the transfer of the nation's 3,300 publicly owned airports to private hands has succeeded in converting only one, reported the Government Accountability Office. The Airport Privatization Pilot Program lifted some restrictions that challenged private operation for qualifying airports in order to incentivize conversion, but has not yet shown results. "Privatization has the potential to provide additional investments to airports, to ease constrained local budgets and to share with the private sector the financial and operational risks of running an airport," GAO noted.<sup>21</sup>

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## Endnotes

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- <sup>3</sup> Mark Rockwell, “GSA getting out of the warehouse business,” *FCW*, February 4, 2014, <http://goo.gl/aMiIdI> (accessed March 3, 2015). See also: Mark Heschmeyer, “Federal Govt. Getting Out of Warehouse Business,” CoStar Group, February 10, 2014, <http://goo.gl/qYNNDf> (accessed March 3, 2015).
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- <sup>5</sup> Jonathan Sweet, “NOAA opens comments on plans to privatize paper charts,” *Boating Industry*, January 3, 2014, <http://goo.gl/MPuEhf> (accessed March 3, 2015).
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- <sup>12</sup> U.S. House Transportation and Infrastructure Committee, “Special T&I Panel Releases Report on Public-Private Partnerships (press release),” September 17, 2014, <http://goo.gl/lvXRVM> (accessed March 3, 2015).
- <sup>13</sup> U.S. Department of the Treasury, *Expanding Our Nation’s Infrastructure Through Innovative Financing*, September 2014, p.3, <http://goo.gl/DrE5xA> (accessed March 3, 2015).
- <sup>14</sup> U.S. Department of the Treasury, Office of Economic Policy, “Treasury and Transportation Host Infrastructure Investment Summit (press release),” September 9, 2014, <http://goo.gl/550TSP> (accessed March 3, 2015).
- <sup>15</sup> The final vote results for this amendment (Roll Call 235 on HR4435) are available here: <http://goo.gl/Jw3zXT> (accessed March 3, 2015).
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