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MEMORANDUM FOR: The Secretary

FROM: Kenneth J. Beirne, Acting Assistant Secretary for Policy Development and Research /S/

SUBJECT: Privatization materials for Domestic Policy Council

As you requested, attached is a revised package for you to send to Al Kingon, containing the piece on Enterprise Zones, and the list of privatization activities, including the brief description of our projected rehabilitation proposal. All references to the public housing proposal have been deleted, pending your discussion with Public Housing and ourselves on this initiative.

I am also including a memorandum which Dr. Koch asked us to send you on the reasons for moving ahead with this initiative rapidly.

Attachments

cc: Beirne 8100
Koch 8100
Miller 8106
Stimpson 8122

T:KJBeirne:fka:12/12/85

CORRE-SPON-DENCE CODE	ORIGINATOR	CONCURRENCE	CONCURRENCE	CONCURRENCE	CONCURRENCE	CONCURRENCE
	JJ					
Name	1/7/86					
Date						

Previous edition is obsolete U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT HUD-713 (4-80)

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12/11/85

LIST OF HUD PRIVATIZATION AND DEREGULATORY ACTIVITIES FOR FEDERALISM WORKING GROUP

A. Major Initiatives

HUD is developing two major initiatives that will be submitted to the Working Group for possible consideration by the Domestic Policy Council. They are briefly described below.

1. Federal Regulatory Flexibility for State Enterprise Zones

HUD will propose an effort to remove Federal regulatory impediments to job creation and economic revitalization in State enterprise zones. Under the proposal, which can be implemented by Executive Order rather than legislation, a mechanism would be established to enable State and local governments to obtain regulatory relief and to provide a coordinating function in reconciling conflicting requirements of various agencies and programs. Essentially, the mechanism would allow for an examination of the problems caused by the current rules. The benefits of a change to these rules for job creation, economic revitalization, or other goals of the enterprise zone would be weighed against any potential negative impacts of the change.

This proposal provides the opportunity and the ability to support and complement efforts by the States and to demonstrate the value of the Federal proposal to include regulatory flexibility as a major component of the proposed enterprise zone legislation.

2. Reducing Costs of Rehabilitation in Housing

Another new initiative to be proposed by HUD is a demonstration that will address ways to reduce costs and improve systems of rehabilitation. The demonstration will focus on the use of public/private partnerships and the cooperation of other Federal agencies to reduce the regulatory burdens and encourage the use of new technology in the rehabilitation process. The initiative will be designed to particularly address the high cost of public housing rehabilitation and other HUD housing projects occupied by lower income families.

This effort is important to HUD for several reasons. HUD supports 1.3 million units of public housing and has been funding rehabilitation and modernization since 1967. The modernization program has been extremely costly--nearly $8 billion has been spent in the last four years and a current study is expected to estimate that $12 billion more will be needed for unmet modernization needs. HUD also holds a large financial interest in over 1 million units of privately owned subsidized housing. More than half of this inventory is at least 10 years old and is approaching the age where major repairs become necessary. Thus, new cost-effective technological approaches must be developed. Finally, the availability of standard private market housing is a key component of the Administration's housing strategy which is based on the use of housing vouchers in this stock. Rehabilitation of this existing stock is necessary in certain geographical areas.

HUD will seek the assistance of the Cabinet Council and the cooperation of other Federal agencies, particularly the Department of Labor and OMB's Office of Federal Procurement Policy, as the rehabilitation demonstration project is developed.

B. Activities Underway that will be Continued or Expanded

The list below describes activities and initiatives related to privatization and deregulation in HUD programs that are already underway and that are planned for continuation and/or expansion.

1. Privatization Initiatives in Departmental Administration

HUD has contracted out a number of administrative services to the private sector. These include:

-- Library Operations

-- EEO Investigative Services

-- Computer Room Operations and Support

-- Courier Services

By 1988, HUD will review for possible contracting out under Circular A-76 the following additional administrative services:

-- HUD ADP Services

- Production Systems Management

- Data Base Management

- Operating Systems Maintenance

- User Assistance

- ADP Teleprocessing Services

-- Telecommunications Services

-- Training

-- Visual Arts

-- Warehouse Operations

-- Motor Pool

2. Privatization and Deregulatory Initiatives in Single-Family, Multifamily and Public Housing

(a) Public Housing

-- In 1985 HUD developed and implemented an major public housing homeownership demonstration involving 2,000 units to test feasibility of various sales approaches. Eighteen PHAs and communities are currently participating. This initiative will be continued over the next 2 years.

HUD also plans to:

-- Implement a new public housing regulation encouraging PHAs to contract with Tenant Management Corporations for the management of public housing projects.

-- Implement a new regulation increasing flexibility for PHAs that choose to retire obsolete projects.

(b) Single-Family and Multifamily Housing

The following activities undertaken by HUD enable the private sector to provide services and products through contracting out and other methods. HUD has:

-- Implemented coinsurance, including a coinsurance program for multifamily housing whereby lenders are permitted to process loan applications, which make possible faster approval, in exchange for assuming a greater share of the underwriting risk.

-- Initiated a direct endorsement program, allowing qualified lenders to underwrite FHA applications and close loans without prior PHA approval.

-- Delegated additional processing responsibility for appraisals and credit analysis for FHA mortgage insurance applications to the private sector, eliminating duplication of work.

-- Contracted out note servicing activities for multifamily properties in the HUD inventory.

HUD plans to:

-- Contract out the accounting, management, and other functions associated with the disposition of single-family HUD-held or acquired properties.

-- Continue efforts to promote the increased use of private sector lenders in FHA coinsurance underwriting, appraisal and credit analysis, and other processing steps currently performed by HUD.

HUD has taken action to cut red tape, reduce paperwork and eliminate burdensome regulations. Key efforts include:

-- The Joint Venture for Affordable Housing involves State and local governments, homebuilders, architects, lending institutions, and others in a public/private partnership to reform building codes, zoning regulations, processing procedures, and other requirements that have increased housing costs and prevented the use of cost-saving materials and methods. HUD's 40 demonstration projects in 33 States are beginning to show dramatic results with cost reductions of up to 20 percent.

-- To reduce costly and time-consuming paperwork, HUD removed Federal requirements for minimum property standards and now permits the use of comparable local codes or nationally recognized model codes in place of the health and safety standards of the MPS for single and multifamily housing.

HUD also has reduced the inventory of HUD-owned and HUD-acquired insured properties through major improvements in its property disposition program.

-- Multifamily properties. A total of 311 projects containing 27,500 units have been sold during the past three fiscal years, at a total sales price in excess of $210 million. Faster processing and disposition of projects has reduced HUD's holding costs by tens of millions of dollars.

-- Single-family properties: About 85 percent of HUD's acquired single-family properties are now sold on an as-is basis, compared with 50 percent in previous years.

-- HUD has accomplished the transfer of over 8,500 single-family properties to local governments under its Urban Homesteading program.

HUD plans to:

-- Continue efforts to reduce the inventory of single-family and multifamily properties through sales to the private sector.

-- Continue efforts to transfer single-family properties to local governments.

12/11/85

Federal Regulatory Flexibility for State Enterprise Zones

The Administration is committed to the enterprise zone concept and passage of the proposed Federal enterprise zone legislation to revitalize depressed inner city areas. While the Congress has continually delayed passage of the legislation, over one-half of the States have embraced the enterprise zone concept by developing their own programs. We currently have the opportunity and the ability to support and complement these State programs, without waiting for Congressional action, through an Executive Order implementing one major element of the Federal proposal: regulatory flexibility.

Deregulation has been a major focus of this Administration, which has been highly successful in identifying and modifying or waiving unnecessary and burdensome rules, regulations, and procedures. However, many rules and regulations still exist that make the cost of doing business prohibitively high, affecting business creation and expansion, stifling innovation, and restricting improvements in productivity. Some of these costly and complex requirements have disproportionately burdensome impacts on the types of economic activity needed to revitalize depressed inner city areas. In addition, development projects in these areas often require a high degree of coordination of various Federal, State, and local agencies and programs. The success of development projects may be jeopardized by a myriad of different rules, regulations, and processing and timing requirements.

In order to eliminate or reduce adverse effects on job creation and economic revitalization in State enterprise zones, a mechanism is needed to enable State and local governments to obtain regulatory relief, and to provide a coordinating function in the case of conflicting requirements of various agencies and programs. Essentially, the mechanism would allow for an examination of the problems caused by the current rules. The benefits of a change to those rules for job creation, economic revitalization, or other goals of the enterprise zone would be weighed against any potential negative impacts of the change. Federal agencies would not be permitted to waive or modify any rule that prohibits discrimination or serves as an essential protection of health or safety.

Federal agencies would consider changes when requested to do so by State governments. This process would be activated whenever State and local governments became aware of regulatory or coordination impediments to the efficient operation of enterprise zones. Teams of Federal officials would be set up to consider proposals for regulatory relief with State and local officials. This would be similar to the model of the Negotiated Investment Strategy (NIS), a process in which teams of government officials (and sometimes business leaders) come together for face-to-face negotiations which culminate in specific agreements and commitments from each team. The process has been successfully used in several communities including St. Paul, Minnesota, where agreement was reached through NIS on a series of complex issues which had been under discussion for many years.

One Federal agency could be designated the single point of contact for State and local governments. The coordinating agency would, in turn, deal with specific contacts in other agencies. This approach would be of particular value when regulatory or coordination problems involved more than one Federal agency. HUD, with its extensive experience in working closely with the States and evaluating the State enterprise zone programs, would be the likely candidate for the coordinating role. Alternatively, each agency could have a point of contact to deal directly with its regulations. This approach would avoid an unnecessary additional layer when only one agency's regulations were the subject of the request.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

January 24, 1986

MEMORANDUM FOR: Alfred H. Kingon, Cabinet Secretary

FROM: June Q. Koch, Ph.D.

SUBJECT: Federalism Working Group Deregulation Candidates

As requested by the Federalism Working Group, attached are some preliminary deregulation candidates from the Department of Housing and Urban Development. Please do not hesitate to get in touch with me if you desire any additional information on the attached deregulation candidates.

We are continuing our efforts to identify additional candidates for the President's Federalism initiative in the areas of deregulation, legislation, and privatization.

Attachment

PRELIMINARY LIST OF HUD DEREGULATION CANDIDATES

I. Obsolete Regulations to be Eliminated

These regulations are out-of-date, have never been utilized, or apply to programs for which the authority has expired or has not been used for many years:

- -- Eligibility of Miscellaneous Type Mortgages (24 CFR 200.34, 203.43, 207.31, 213.45, and 221.555)
- -- Eligibility of Mortgages in Certain Communities (24 CFR 203.43d)
- -- New Community Criteria (24 CFR 205.47(b)(2) and 205.86)
- -- Mortgagor's Equity Investment (24 CFR 207.19(g) and 221.531(d))
- -- War Housing Mortgage Insurance - Individual Homes (24 CFR Part 209)
- -- War Housing Mortgage Insurance - Multifamily Projects (24 CFR Part 210)
- -- War Housing Mortgage Insurance - Single Family Project Loans (24 CFR Part 211)
- -- Yield Insurance (24 CFR Part 238 and 200.24)
- -- Loans and Grant Assistance for Planning and Making Feasible Housing Projects in Appalachia (24 CFR Part 270)
- -- Loans for Housing for the Elderly or Handicapped (24 CFR Part 277)
- -- Emergency Homeowners' Relief Program (24 CFR Part 2700)
- -- Establishment of Model Cities programs (24 CFR 580, Subpart A)
- -- Section 701 Comprehensive Planning Assistance Program (24 CFR, Part 600)
- -- Technical Assistance for New Communities (24 CFR 570.403)
- -- Public Works Planning Program (24 CFR 490, Subpart A)

In addition, we propose to eliminate regulations where new interagency regulations will supercede HUD regulatory requirements, including:

- -- Last resort housing as part of uniform relocation assistance (24 CFR Part 43, Subpart A)
- -- Equal employment opportunity under HUD contracts (24 CFR Part 130)

II. Repetitive Regulations

This category includes regulations that are more comprehensively dealt with elsewhere or have been replaced by other regulations:

- -- Nondiscrimination and Fair Housing (24 CFR Part 200, Subpart I)
- -- Claims Collection Standards (24 CFR Part 200, Subpart R)
- -- Coinsurance for State Housing Finance Agencies (24 CFR Part 250)

III. Candidates for Review and Simplification

HUD will review these regulations for possible simplification:

-- Manufactured Home Construction and Safety Standards (24 CFR Part 3280)
-- Organization and Management (24 CFR Part 200, Subpart C)
-- Delegations to Particular Positions (24 CFR Part 200, Subpart D)
-- Mortgage Insurance Procedures and Processing (24 CFR Part 200, Subpart E)
-- Property Improvement Loan Procedures and Processing (24 CFR Part 200, Subpart F)
-- Indian Housing (24 CFR Part 905)
-- Requirements for intergovernmental review of HUD programs and activities (24 CFR Part 52) (This would require rescission of Executive Order 12372.)

Reviews Recently Undertaken and Completed

-- Community Development Block Grants (24 CFR Part 570)
-- Title I Property Improvement and Manufactured Home Loans (24 CFR Part 201)

IV. Non-Utilized and Under-Utilized Regulations

This category includes regulations for programs where usage has been nonexistent or very slight in recent years. (In some cases, it may be desirable to merge these programs into the basic program regulations in Parts 203 and 207):

-- Mortgages Covering Housing Intended for Seasonal Occupancy (24 CFR 203.19(f) and 203.43(b)
-- Issuance of Bonds Secured by Trust Indenture (24 CFR 207.15, 213.19, 221.526, 232.43 and 242.47)
-- Armed Services Housing - Military Personnel (24 CFR Part 224)
-- Military Housing Insurance (24 CFR Part 225)
-- Armed Services Housing - Civilian Employees (24 CFR Part 226 and Section 220.15)
-- Armed Services Housing - Impacted Areas (24 CFR Part 227 and Section 200.25)
-- National Defense Housing Mortgage Insurance - Individual Residences (24 CFR Part 228)
-- National Defense Rental Housing Mortgage Insurance (24 CFR Part 229)
-- Experimental Housing Mortgage Insurance (24 CFR Part 233, Subparts D, E, and F)
-- Mortgage Insurance for Group Practice Facilities (24 CFR Part 244 and Section 200.28)

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FEB 24 1986

MEMORANDUM FOR: Alfred H. Kingon, Secretary of the Cabinet

FROM: June O. Koch, Ph.D.

Kenneth J. Beirne

SUBJECT: Federalism Working Group Legislative Candidates

As requested by the Federalism Working Group, attached are some preliminary legislative candidates from the Department of Housing and Urban Development. Please do not hesitate to get in touch with me if you desire any additional information on the attached list.

The candidates for repeal include a number of programs whose functions clearly could be handled more appropriately at the State or local level.

Attachment

TPP:GAFerguson:wjw:2-21-86

cc:

TPP	Chron/files	8110
TA	C/U	8106
T	Koch	8100
TP	Stimpson	8122
TU	Smith	8226
TPP	Khadduri	8110
TPP	Ferguson	8110

TPP	TPP	TP	TU	T
Ferguson	Khadduri	Stimpson	Smith	Beirne

Federalism Working Group Legislative Candidates

A. Major Candidates for Repeal Contained in HUD's FY 1987 Legislative Program

1. Rental Housing Rehabilitation Grant Program (Section 17 of the U.S. Housing Act of 1937)

2. Rental Housing Development Grant Program (Section 17 of the U.S. Housing Act of 1937)

3. Urban Development Action Grant Program (Sections 119 and 121 of the HCD Act of 1974)

4. Section 8 Moderate Rehabilitation Program (Section 8(e)(2) of the Housing Act of 1937)

5. Grants or Contracts for Housing Counseling Assistance (Section 106(a) of the HUD Act of 1968)

6. CDBG Lump Sum Drawdowns (Section 104(g), HCD Act of 1974)

7. Section 108 Loan Guarantees (Section 108 of the HCD Act of 1974)

8. Section 312 Rehabilitation Loan Program (Section 312 of the Housing Act of 1964)

9. Mortgage Insurance for Single Family Investor Loans (Sections 203, 220, 221 and 234)

10. Section 203(m) - Mortgage Insurance for Seasonal Homes

11. Livable Cities Act of 1978 (Title VIII of the HCD Amendment of 1978) (This program was never funded)

B. Obsolete Programs Not Proposed to be Extended in HUD's FY 1987 Legislative Program

Expirations. (Extensions are not being proposed for a number of programs. Many of these programs are little used, either because of diminished demand or because financing needs are being met in the private lending market).

1. Section 222--Mortgage Insurance for Servicemen

2. Section 232--Mortgage Insurance for Nursing Homes, Intermediate Care Facilities, and Board and Care Homes

3. Sections 235(h) and (m)--Homeownership for Lower Income Families

4. Section 235(g)--Countercyclical economic stimulus

5. Section 242--Mortgage Insurance for Hospitals

6. Title VIII--Armed Services Housing

7. Title XI--Group Practice Facilities

C. Cross-Cutting or Duplicative Legislation - Candidates for Further Review to Remove Costly or Burdensome Provisions or to Improve Coordination

1. Farmland Protection Policy Act of 1981 (Sections 4201-4209).

   Directs Federal agencies to identify and take into account the adverse effect of Federal programs on the preservation of farmland, and consider alternative actions, as appropriate. Creates additional paperwork and costs.

2. Section 504 of the Rehabilitation Act of 1973.

   Assures nondiscrimination based on handicap in programs and activities receiving Federal financial assistance.

3. Architectural Barriers Act of 1968, as amended.

   Requires that buildings designed, constructed or altered with Federal funds be made accessible to the physically handicapped.

4. Lead-Based Paint Poisoning Prevention Act of 1971, as amended.

   Prohibits the use of lead-based paint in all residential structures built or rehabilitated by the Federal Government or with Federal assistance, and requires the elimination of lead-based paint hazards in Federally owned properties.

5. Davis-Bacon Act, Sec. 276(a).

   Ensures that, for construction work under Federal or Federally assisted contracts, laborers are paid the wage rates and benefits which prevail in the community in which the work is performed. Would reduce development and rehabilitation costs of HUD housing and community development programs.

6. Section 4321, National Environmental Policy Act of 1969.

   Requires evaluation to determine whether Federal projects will significantly affect the environment. If so, the agency must prepare an environmental impact statement.

7. Executive Order 11988, Floodplain Management.

   Restricts development of housing and use of FHA insurance floodplain areas. Creates added paperwork and added costs.

8. Executive Order 11990, Protection of Wetlands.

   Requires that wetlands not be used as sites for development of assisted housing, if possible. Also restricts development activity which may have adverse effects on wetlands environment. Creates added paperwork and added costs.

D. <u>Automatic Sunset (No extension to be proposed).</u>

   Solar Energy and Energy Conservation Bank (Title V of the Energy Security Act of 1980). Sunsets 9/30/87; no extension planned.

E. <u>Miscellaneous Statutory Provisions Proposed for Repeal in HUD's FY 1987 Legislative Program</u>

   1. Requirement to Publish Prototype Housing Costs for One- to Four-Family Units (Section 904 of the HCD Amendments of 1977)

   2. Section 7(o) Legislative Review Requirements Applicable to HUD Regulations

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

February 26, 1986

THE GENERAL COUNSEL

MEMORANDUM FOR: Secretary Pierce

FROM: John J. Knapp JJ Knapp

SUBJECT: "Federalism Working Group Legislative Candidates"

You requested my comment on the proposed memorandum and attachment from June to Al Kingon.

I recommend clarification or elimination of Category C. As presented, it is not clear what is being recommended and why with regard to the listed statutes. It is said, in the heading, that they are either "cross-cutting" or "duplicative" legislation, but none are identified as "duplicative" and I'm not aware that any are. All are cross-cutting. The heading further suggests that they are candidates for "further review to remove costly or burdensome provisions or to improve coordination." However, the reasons for identifying particular legislation as candidates are not identified. In three cases, the description includes a comment, "Creates additional paperwork and costs." (Farmland Protection Policy Act; Floodplain Management; Protection of Wetlands.) No judgmental comment is offered as to the others. There is no attempt to indicate "costly or burdensome provisions" in, say, the handicapped nondiscrimination act (Section 504) or the Architectural Barriers Act. In this bald form, the attachment might be construed as a recommendation for consideration of repeal of these statutes. I would not suggest such a recommendation.

An alternative might be to limit Category C to the three statutes about which the "added paperwork and added costs" comments are made (items 1, 7, and 8). The Davis-Bacon Act and related acts is already on the Economic Policy Council agenda. I do not recommend referring to Secton 504, the Architectural Barriers Act, or the National Environmental Policy Act unless a more specific focus of the review can be identified. I also recommend deletion of the lead-based paint statute. (The description of this statute's requirements is faulty and perhaps misleading. I doubt that we would recommend repeal or modification of the prohibition on use of lead-based paint in Federally-assisted construction or rehabilitation, since lead-based paint is not manufactured now, anyway. I would not seek modification of the requirements regarding elimination of hazards in Federally-owned properties unless we find, in the rulemaking, now underway, that we are unable to develop "practicable" procedures that are not unduly costly in comparison to the health

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benefits. The major requirement of the statute, not listed in the description, concerns elimination of hazards in Federally-assisted housing. This, too, is the subject of the current rulemaking, and I would not recommend review for legislative action unless we find that we are unable to develop "practicable" procedures that are not unduly costly in comparison to the health benefits.)

As a separate, perhaps unimportant comment, I question the validity of including programs such as Section 235, and Sections 232 and 242, in a listing of "obsolete" and "little-used" programs. They are proposed for non-extension precisely because they are used and are considered too costly or risky. They are in Category B rather than Category A because, as a technical matter, their termination would come about by non-extension rather than repeal, but otherwise they qualify as "major candidates."

not all

PRIVATIZATION OPTIONS

In developing a specific privatization initiative, there are two approaches that can be taken. The agency or department can develop a proposal to bring before the working group/DPC for approval; alternatively, the working group can set up a small task force of interested agencies, chaired by the agency most involved, to develop the proposal.

Option 1:

The agency overseeing the activity that has been proposed for privatizing develops within house a proposal which includes the approach that should be taken to transfer the activity to the private sector.

Advantages:

-- The relevant agency has the greatest expertise and interest in the subject.

-- It will cause less interagency friction.

Disadvantages:

-- Agencies are often reluctant to give up activities they have long overseen.

-- This forgoes the expertise of the working group on privatization within which resides the expertise on how best to privatize.

Option 2:

The working group takes the lead by setting up a small task force consisting of relevant agencies chaired by the department overseeing the activity.

Advantages:

-- This approach most fully utilizes the expertise on how to privatize, which resides within the working group.

-- It increases the possibility that a proposal will come forth that can work in a timely manner.

Disadvantages:

-- Agencies may object to policy being developed for "their programs" by outside groups.

-- Less expertise on the particular program may be available to the task force.

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DRAFT

March 19, 1986

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: THOMAS G. MOORE, Chairman
Working Group on Privatization

SUBJECT: Development of an Administration Privatization Program

Issue: What strategies should the Administration use to develop and implement privatization initiatives?

Background:

In 1981, the President promised "to limit government to its proper role and make it the servant, not the master, of the people". The President called for a re-evaluation of past decisions that have created a bloated and ever-expanding Federal government. The Director of OMB recently articulated a set of management decision rules which were used to formulate the FY 87 budget, and which focus on achieving effective government within a balanced budget. The decision rules question whether each government function should in fact be performed by the Federal government. If there is no reason why the government should provide a service, decisions have to be made as to whether the function should be terminated, transferred to another level of government, or moved into the private sector.

The FY 87 budget supports the President's priority of turning over to the private sector those functions now being performed by government which could be more efficiently and effectively carried out by non-governmental organizations. Implementation of these initiatives and other similar

privatization actions will strengthen the private sector of our economy, and allow government to more directly focus its limited resources on the tasks and activities best accomplished by governmental action. However, full implementation of new or previously identified privatization initiatives requires a coordinated inter-agency strategy that allows the Administration to assess the broad economic and political implications of privatizing each identified area. The strategy must provide for effective execution of each privatization initiative despite natural resistance from affected interest groups.

Discussion:

In its broadest sense, privatization is the transfer of governmental production of goods and services to the private sector. While the specific approach will vary from case to case, there are three primary means of privatizing government activities:

* Contracting out as in the A-76 program
* Asset sales to the private sector
* Curtailing government provided services and allowing the private sector to determine how much and what type of service will be supplied.

Privatization improves economic performance in several ways. The economy gains from the efficiency improvement that comes with private ownership and management and the removal of distorting subsidies. Government expenditures decline due to cost savings and termination of subsidy programs. Finally, privatization reduces the monopoly restraints that often accompany government production.

These economic gains have led many countries to pursue policies of privatization. Over the past few years Great Britain has transfered $20 billion of assets to the private sector including British Telecom and Britoil. In the United States we have been promoting contracting out through the A-76 program and have developed a proposal to sell Conrail.

<u>Current Privatization Candidates</u>:

The budget process has led to specific privatization proposals in the 1987 budget (see attachment). Some of these proposals involve ending subsidies or instituting voucher systems, and the working group is not directly involved in developing these policies. Other proposals would sell government assets to the private sector. The privatization working group is setting up subgroups to develop methods of transferring these assets to the private sector in the most politically and economically desirable manner. In addition, the working group has generated other privatization possibilities that also are being considered in subgroups. The specific privatization candidates being considered are:

1. Sallie Mae. A subgroup with the participation of the Departments of Education and Treasury, OMB and CEA is

considering options for eliminating remaining federal connection to the Student Loan Marketing Association (Sallie Mae). Sallie Mae packages student loans and resells them, creating a secondary market for those loans. Sallie Mae is privately owned, but maintains a special relationship with the Federal government that exempts their earnings from state and local income tax, exempts their securities from SEC registration, and eliminates restrictions on investment in their securities by depository institutions. Privatization would terminate these special conditions and also eliminate restrictions on Sallie Mae's portfolio.

Opponents of Sallie Mae privatization are likely to be those who fear that the private market will not continue to make a secondary market in student loans. However, several private firms are now in competition with Sallie Mae and would increase their activity as the special advantages for Sallie Mae are phased out. Another major issue to be dealt with is how Sallie Mae will pay off the current debt held by the U.S. Treasury.

2. Overseas Private Investment Corporation (OPIC). OPIC provides insurance to firms investing abroad at rates that appear to be concessionary. At present, there are private companies that provide some types of insurance in competition with OPIC. Other classes of insurance such as for nonconvertibility of currency seem only to be provided by OPIC.

3. United States Postal System. A subgroup is now looking at ways in which to increase competition in the provision of postal services. The measures being contemplated would increase the use of private contractors, allow charitable groups access to letterboxes for the delivery of their own mail, and expand the current "urgent letter" exemption to the private express statutes. Increased contracting out and expanding exemptions to the private express statutes can be accomplished by rule making by the Board of Governors of the USPS. Legislation may be needed to expand access to letterboxes.

4. Department of Energy Initiatives. The 1987 budget calls for the selling of the power marketing agencies and the naval petroleum reserves. The Department of Energy is also looking at privatizing the Great Plains Coal Gasification project, the advanced enrichment technology and is considering what to do with the closed gas centrifuge plant in Portsmouth, Ohio. At present, DOE is establishing a task force to marshall its expertise to develop the information necessary for successful privatization efforts. Procedures are being developed to coordinate the DOE work with the efforts of the privatization working group.

5. The working group has also discussed with representatives from HUD and Interior the possibility of demonstration programs for moving a limited selection of public

housing and public land into the private sector. With the cooperation of these agencies, the working group believes successful demonstrations could be fashioned.

Strategies:

Administration Coordination. Most privatization effort affects a wide range of interest groups and involves a number of government agencies, although there is usually one agency with primary responsibility for the targeted activity. Inevitably those agencies most involved in a particular activity will desire to organize within their agency to develop necessary information and specific proposals for privatization. These departmental efforts are important to the generation of information and sensible options. However, the Administration policy process requires that specific proposals to the DPC be developed in an inter-agency framework in order to consider the broad implications of specific actions. The working group will integrate the agency efforts through the agency representatives to the working group.

Priorities. The privatization candidates differ greatly in terms of the difficulty of fashioning feasible proposals. The working group feels that some early success in privatization efforts would demonstrate Administration commitment to and the feasibility of privatization. Such success would create an environment that will make later efforts at privatization easier. Further, the experience gained will help with the more complicated privatization initiatives. To demonstrate success we need to rapidly develop a few proposals that will provide gains to the economy, but that are structured to engender little opposition.

The major obstacles to privatization come from groups that now benefit from the direct and indirect subsidies associated with the government provision of goods and services. Often, the only way in which to make the sale politically feasible is to compensate current beneficiaries. In Great Britain, for example, this involved selling shares in privatized corporations to affected workers at below market rates. On the other hand, the explicit recognition of the subsidies that comes with sale at below market rates leaves the Administration open to criticism from those who will claim we are "giving away" public assets. Nevertheless, the working group feels that in developing privatization strategies we should recognize that selling an asset for top dollar, while desirable, may not be politically feasible.

Recommendations:

The working group seeks the concurrence of the DPC with the operational strategy it is pursuing and with the specific privatization candidates. The working group recommends that in a 60 - 90 day period specific proposals for a few privatization initiatives be brought back for DPC consideration. The assessment of the working group is that proposals for OPIC, Sallie Mae, the USPS, and the Naval Petroleum Reserves can be developed in a relatively short time-frame. Private interest in the gas centrifuge plant also suggests proposals can be developed in the near term for privatizing this facility. Other proposals will follow, but the working group feels that in order to establish early successes our efforts now be concentrated on these candidates.

Options version p. 7-8-9-10

DRAFT

March 26, 1986

Just hold

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: THOMAS G. MOORE, Chairman
Working Group on Privatization

Issue: What strategies should the Administration use to develop and implement privatization initiatives?

Background:

In 1981, the President promised "to limit government to its proper role and make it the servant, not the master, of the people". The President called for a re-evaluation of past decisions that have created a bloated and ever-expanding Federal government. The Director of OMB recently articulated a set of management decision rules which were used to formulate the FY 87 budget, and which focus on achieving effective government within a balanced budget. The decision rules question whether each current government function should in fact be performed by the Federal government. If there is no reason why the Federal government should provide a particular service, a decision is made as to whether the function should be terminated, transferred to another level of government, or moved into the private sector.

The FY 87 budget supports the President's priority of turning over to the private sector those functions now being performed by government which could be more efficiently and effectively carried out by non-governmental organizations. Implementation of these initiatives and other similar

privatization actions will strengthen the private sector of our economy, and allow the Federal government to more directly focus its limited resources on the tasks and activities best accomplished by governmental action. However, full implementation of new or previously identified privatization initiatives requires a coordinated inter-agency strategy that allows the Administration to assess the broad economic and political implications of privatizing each identified area. The strategy must provide an organizational structure that leads to effective execution of each privatization initiative despite natural resistance from affected interest groups.

Discussion:

In its broadest sense, privatization is a process for transfering the governmental production of goods and services to the private sector. While the specific approach will vary from case to case, there are three primary means of privatizing government activities:

* Contracting out
* Asset sales to the private sector
* Curtailing government provided services and allowing the private sector to determine how much and what type of service will be supplied.

Current Administration policy provides examples of each of these privatization activities: the A-76 program aims to reduce costs through contracting out; asset sales have been proposed for Conrail, Power Marketing Authorities, and other agencies; the proposals for ending Amtrak subsidies and phasing out crop insurance subsidies are examples of the last method of privatization.

Privatization improves economic performance in several ways. The economy gains from the efficiency improvement that comes with private ownership and management and the removal of distorting subsidies. Government expenditures decline due to cost savings and termination of subsidy programs. Finally, privatization reduces the monopoly restraints that often accompany government production.

These economic gains have led several other countries to pursue policies of privatization. Over the past few years Great Britain has transfered $28 billion of assets to the private sector including British Telecom and Britoil. In the United States at the local level, many governments have contracted out for the provision of municipal services. The cessation of federal grants for waste-water facilities has led to private firms building and operating these facilities for municipalities. At the federal level, the A-76 program, the Conrail proposal, the creation of markets in airport landing and take-off slots, FCC proposals to auction the radio spectrum, and demonstration programs to sell public housing units to current occupants can all be considered privatization initiatives.

Current Privatization Candidates:

The budget process has led to specific privatization proposals in the 1987 budget (see attachment). Some of these proposals involve ending subsidies or instituting voucher systems. Other proposals initiate sale of government assets to the private sector. In addition, the working group has generated other privatization possibilities. The specific privatization candidates currently being considered by the Working Group are:

1. Student Loan Marketing Association (Sallie Mae). A subgroup (with representatives from Departments of Education and Treasury, OMB and CEA) is considering the role played by Sallie Mae and the advisability of eliminating its remaining federal connections. Sallie Mae creates a secondary market for student loans and is privately owned. It does, however, enjoy special status which, among other things, exempts their earnings from state and local income tax, exempts their securities from SEC registration, and eliminates restrictions on investment in their securities by depository institutions. Privatization would terminate these special conditions and also eliminate restrictions on Sallie Mae's business activities.

Opponents of Sallie Mae privatization are likely to be those who fear that the private market will not continue to make a secondary market in student loans. Private firms now compete only to a limited degree with Sallie Mae. However, private activity could expand as the special advantages of Sallie Mae are phased out. There could also be significant opposition from other government sponsored agencies concerned about the impact of similar proposals on their financial viability. Finally, a major issue being considered is how to treat Sallie Mae's current $5 billion floating rate debt held by the U.S. Treasury.

2. Overseas Private Investment Corporation (OPIC). OPIC provides insurance to firms investing abroad at rates that appear to be concessionary. At present, there are private companies in competition with OPIC that insure private investments against expropriation, and to a somewhat more limited degree, also offer insurance against war risk and nonconvertibility of currency. Some opposition to privatization comes from the National Association of Manufacturers whose members benefit from the relatively low-cost insurance.

3. United States Postal System. A subgroup will look at ways to increase competition in the Postal Service. Measures which could be considered include: increasing the use of private contractors; allowing charitable groups access to letterboxes for the delivery of their own mail; and, expanding the current "urgent letter" exemption to the private express statutes. Increased contracting out and expanded exemptions to the private express statutes can be accomplished by rule making

by the Board of Governors of the USPS. Legislation is needed to expand access to letterboxes. All these options are likely to be opposed by the Postal Workers' Unions.

4. Department of Energy Initiatives. The 1987 budget calls for selling power marketing authorities and the naval petroleum reserves. The Department of Energy is also looking at privatizing the Great Plains Coal Gasification project and the advanced enrichment technology (AVLIS). DOE is also considering options for the closed gas centrifuge plant in Portsmouth, Ohio. At present, DOE is establishing an in-house task force to marshall its expertise to develop the information necessary to support successful privatization efforts.

Strategies:

Successful execution of the Administration's privatization policy requires careful management from initial concept generation all the way through to the implementation stage. The privatization strategy adopted by the Administration must consider: interagency coordination at all phases of privatization initiatives; innovative approaches that deal with the natural resistance of the affected interest groups; and formulation of priorities among the various privatization candidates.

1. Interagency Coordination. Candidates for privatization are identified through a variety of channels. The budget process uncovers activities which can be transferred to the private sector and the FY 1987 budget has identified a number of these activities. Individual agencies and the privatization working group also have identified governmental activities that can best be accomplished in the private sector. While all these channels are valuable originators of privatization initiatives, an organizational strategy should be formulated that will clearly set out the means by which proposals are transformed into an Administration policy to privatize a particular activity. Several alternative organizational structures are possible, each with certain advantages and disadvantages.

Option 1: Working Group plays lead role in both identifying privatization candidates and in developing and implementing methods for privatization.

This option would subject the initial policy decision to privatize an activity to interagency review. The budget process would still identify opportunities, but the policy decision would be made by the DPC based on an interagency recommendation of the Privatization Working Group. Design and implementation by the Working Group would still be carried out.

Advantages

o Provides interagency input to initial privatization policy decisions.

o Allows same channels for the identification of candidates as in option 2.

Disadvantages

o Lessens the impact of budgetary pressure in promoting privatization.

o Puts another review group in the budgetary/privatization decisionmaking process.

Option 2: Working Group coordinates development and implementation of specific budget initiatives

Under this option, proposals developed in the budget process go through normal budget decision-making channels and, depending upon agency appeals, become part of Administration privatization policy. Using the expertise available in an interagency framework, the primary role of the Working Group is to fashion methods for successfully implementing these proposals. In addition, the Working Group identifies additional candidates that they take directly to the DPC for approval. If the DPC concurs, then the Working Group fashions implementation plans for these candidates as well.

Advantages

o Provides flexibility in that both the budget process and the Working Group identify candidates.

o Working Group can independently seek DPC approval for candidates it identifies.

o Provides interagency expertise and input in the design and implementation of privatization actions.

o Utilizes budget pressure to promote privatization.

Disadvantages

o Does not provide interagency review and coordination of all privatization policy decisions.

o Expertise of Working Group is not used in identifying many privatization options.

Option 3: Working Group plays primarily an advisory role to OMB and to agencies.

Under this option candidates would be proposed primarily through the budget process. OMB and individual agencies would be responsible for design and implementation of privatization methods using the Working Group as an advisory body.

Advantages

o Puts agencies most familiar with given activities in charge of entire process.

o Design and implementation would be done primarily by agency with most expertise.

Disadvantages

o Largely foregoes interagency input on privatization processes.

o Agencies are often reluctant to give up activities they have long overseen.

2. <u>Innovative Approaches for Dealing with Affected Groups</u>. The major obstacles to privatization come from groups that now benefit from the direct and indirect subsidies associated with the government provision of goods and services. Often, the only way in which to make privatization politically feasible is to compensate or to provide assurance of service to current beneficiaries. This can be accomplished in a variety of ways. In Great Britain, for example, this involved selling shares in privatized corporations to affected workers at below market rates. The explicit recognition of the subsidies that comes with sale at below market rates or other direct compensation leaves the Administration open to criticism from those who will claim we are "giving away" public assets and benefits. Nevertheless, the working group feels that in developing privatization strategies we should recognize that realizing top dollar from privatization efforts, while desirable, may not always be politically feasible. Of course, in implementing a proposal, consideration must be given to the objective of benefitting the federal taxpayer.

3. <u>Priorities</u>. The privatization candidates differ greatly in terms of the difficulty of fashioning feasible proposals. Some early success in its privatization efforts would demonstrate the Administration's commitment to and the feasibility of privatization. Such successes would create an environment that will make later efforts at privatization easier. Further, the

experience gained will help with the more complicated privatization initiatives. To demonstrate such success we need to pursue first a few proposals that will provide gains to the economy, but that are structured to engender little opposition.

Recommendation: The working group recommends that in a 60 - 90 day period specific proposals for a few FY 1987 budget privatization initiatives be brought back for DPC consideration. The assessment of the working group is that proposals for OPIC, the USPS, the Naval Petroleum Reserves, and one of the smaller PMA's can be developed in a relatively short time-frame. Work on developing other proposals will continue and will result in proposals at a later time. Nevertheless, the working group feels that in order to establish early successes our efforts now be concentrated on these candidates.

We also recommend that the Working Group continue to explore further the possibilities for privatizing Sallie Mae, and measures for increasing the private sector role in mail delivery. The Working Group will report back to the DPC on its recommendations in these areas at a later date.

Attachment

List of Privatization Initiatives in the FY 1987 Budget

1. Power Marketing Administrations
2. Naval Petroleum Reserves
3. GSA Surplus Property Sales
4. Compensatory Education Vouchers
5. Housing Vouchers
6. Federal Housing Administration
7. Export-Import Bank Direct Loans
8. OPIC
9. Crop Insurance Subsidies
10. Amtrak Subsidy
11. Landsat Subsidy

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MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

March 27, 1986

TO MEMBERS OF THE WORKING GROUP ON PRIVATIZATION

FROM: THOMAS G. MOORE, CHAIRMAN
WORKING GROUP ON PRIVATIZATION

SUBJECT: Draft of Paper for DPC

Attached is a revised draft of our proposed paper for next Wednesday's DPC meeting. I would like to have any comments on this by COB 3/28 so that we can send the paper along to the DPC on Monday.

DRAFT

March 27, 1986

MEMORANDUM FOR THE DOMESTIC POLICY COUNCIL

FROM: THOMAS G. MOORE, Chairman
Working Group on Privatization

Issue: What strategies should the Administration use to develop and implement privatization initiatives?

Background:

In 1981, the President promised "to limit government to its proper role and make it the servant, not the master, of the people". The President called for a re-evaluation of past decisions that have created a bloated and ever-expanding Federal government. The Director of OMB recently articulated a set of management decision rules which were used to formulate the FY 87 budget, and which focus on achieving effective government within a balanced budget. The decision rules question whether each current government function should in fact be performed by the Federal government. If there is no reason why the Federal government should provide a particular service, a decision is made as to whether the function should be terminated, transferred to another level of government, or moved into the private sector.

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privatization actions will strengthen the private sector of our economy, and allow the Federal government to more directly focus its limited resources on the tasks and activities best accomplished by governmental action. However, full implementation of new or previously identified privatization initiatives requires a coordinated inter-agency strategy that allows the Administration to assess the broad economic and political implications of privatizing each identified area. The strategy must provide an organizational structure that leads to effective execution of each privatization initiative despite natural resistance from affected interest groups.

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Opponents of Sallie Mae privatization are likely to be those who fear that the private market will not continue to make a secondary market in student loans. Private firms now compete only to a limited degree with Sallie Mae. However, private activity could expand as the special advantages of Sallie Mae are phased out. There could also be significant opposition from other government sponsored agencies concerned about the impact of similar proposals on their financial viability. Finally, a major issue being considered is how to treat Sallie Mae's current $5 billion floating rate debt held by the U.S. Treasury.

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by the Board of Governors of the USPS. Legislation is needed to expand access to letterboxes. All these options are likely to be opposed by the Postal Workers' Unions.

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Strategies:

Successful execution of the Administration's privatization policy requires careful management from initial concept generation all the way through to the implementation stage. The privatization strategy adopted by the Administration must consider: interagency coordination; innovative approaches that deal with the natural resistance of the affected interest groups; and formulation of priorities among the various privatization candidates.

1. Interagency Coordination. OMB will continue to develop privatization initiatives through the budget process and the Working Group will identify additional candidates. Coordination between OMB and the Working Group on the selection of privatization candidates is desirable.

At the design and implementation phase of privatization, the Working Group needs to draw upon the expertise of affected agencies. While most privatization efforts affect a wide range of interest groups and involve a number of government agencies, there is usually one agency with primary responsibility for the targeted activity. Inevitably those agencies most involved in a particular activity will need to organize within their agency to develop necessary information and specific proposals for privatization. These departmental efforts are important to the generation of information and sensible options and can serve as valuable input to the Working Group. Broad based policy issues and the political and economic implications of specific actions can then be addressed by the Working Group and fashioned into specific options for the DPC.

2. <u>Innovative Approaches for Dealing with Affected Groups</u>. The major obstacles to privatization come from groups that now benefit from the direct and indirect subsidies associated with the government provision of goods and services. Often, the only way in which to make privatization politically feasible is to compensate or to provide assurance of service to current beneficiaries. This can be accomplished in a variety of ways. In Great Britain, for example, this involved selling shares in privatized corporations to affected workers at below market rates. The explicit recognition of the subsidies that comes with sale at below market rates or other direct compensation leaves the Administration open to criticism from those who will claim we are "giving away" public assets and benefits. Nevertheless, the working group feels that in developing privatization strategies we should recognize that realizing top dollar from privatization efforts, while desirable, may not always be politically feasible. Of course, in implementing a proposal, consideration must be given to the objective of benefitting the federal taxpayer.

3. <u>Priorities</u>. The privatization candidates differ greatly in terms of the difficulty of fashioning feasible proposals. Some early success in its privatization efforts would demonstrate the Administration's commitment to and the feasibility of privatization. Such successes would create an environment that will make later efforts at privatization easier. Further, the

experience gained will help with the more complicated privatization initiatives. To demonstrate such success we need to pursue first a few proposals that will provide gains to the economy, but that are structured to engender little opposition.

Recommendation: The working group recommends that in a 60 - 90 day period specific proposals for a few FY 1987 budget privatization initiatives be brought back for DPC consideration. The assessment of the working group is that proposals for OPIC, the Naval Petroleum Reserves, and one of the smaller PMA's can be developed in a relatively short time-frame. Work on developing other proposals will continue and will result in proposals at a later time. Nevertheless, the working group feels that in order to establish early successes our efforts now be concentrated on these candidates.

We also recommend that the Working Group continue to explore further the possibilities for privatizing Sallie Mae, and measures for increasing the private sector role in mail delivery. Any privatization proposals for Sallie Mae or other financial institutions will be cleared through the EPC's Credit Policy Working Group before being brought to the DPC. The Working Group will report back to the DPC on its recommendations in these areas at a later date.