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ON COST CONTROL (GRACE COMMISSION)

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**Folder Title:** PPSSCC – A Report to the President,  
01/15/1984, Volume I of II (4 of 9)

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By law, each Federal agency is required to report excess real property under its control to the General Services Administration. In February 1982, Executive Order #12348 was issued initiating a new program under the Property Review Board (PRB) which eliminated discounted transfers within the Federal Government, required state and local Government to pay 100% of fair market value, and accelerated the disposition of surplus properties.

By establishing incentives for agencies to identify surplus property, more property will be made available for sale. The availability of financing should result in additional and more rapid sales (i.e., some surplus Government property could not be sold without financing) and, thus, reduce the Government's cost of maintaining property. Additional sales over a three year period would increase revenues by \$231 million. The cash generated would reduce the Government's borrowing requirements with a resulting three-year interest savings of \$49 million. In addition, the Government's cost of maintaining property would be reduced by \$15 million over three years.

- Q. Do any of the 744 million acres of Federally-owned land qualify as surplus? Wouldn't sale of some of this land represent a substantial source of income?
- A. Yes, it does, but the sale of Federal land must be a carefully conducted process. PPSS concentrated on the Interior Department, which administers approximately 520 million acres, or about 70% of all Federal land. Based on evaluations of past Federal reviews of these land holdings, PPSS estimated that 11.5 million acres, or about 2.2% of all land under Interior Department control, could be classified as surplus. Of this amount, a rough estimate suggests one-third, or 3.8 million acres -- 0.5% of all Federal land -- is likely to be marketable in the near term.
- Q. Wouldn't such a massive land sale be costly to administer?
- A. PPSS realized a land sale of this magnitude would impose significant administrative costs on the Department of Interior. Based on the experience of the General Services Administration and the U.S. Postal Service in selling surplus property, it is estimated Interior will incur an increase in administrative costs equal to 10% of the selling price of the land. Some marketing costs will also be necessary. PPSS estimated the net income resulting from the land sale at \$900 million over three years (\$1.028 billion gross receipts less \$128 million in increased costs).
- Q. What recommendations were made in the area of strategic stockpiles such as the Strategic Petroleum Reserve (SPR) and stockpiles of other raw materials such as silver?

After review of the SPR, PPSS determined that the Congressionally-mandated fill rate of 300,000 barrels per day exceeded current permanent storage capacity and would require costly temporary storage to be used. In addition, the relaxed state of the world oil market is expected to continue for some time, mitigating the need for an accelerated stockpiling program. Petroleum stored in the SPR as of September 30, 1983 totalled 360 million barrels, enough to replace average U.S. oil imports from Arab OPEC countries during the first eight months of 1983 for over two years. PPSS recommended a lower fill rate which would not exceed existing permanent storage capacity, as well as other management improvements, which could save \$1.281 billion over three years.

PPSS also found the strategic silver stockpile to be in excess of requirements. Sale of surplus silver would generate \$1.040 billion.

Other recommendations in this area include:

- o Management improvements at Tennessee Valley Authority facilities.
- o Better management of property acquired at foreclosure sales by the Department of Housing and Urban Development and the Veterans Administration.

Potential savings identified in these areas total \$470 million over three years.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is \$6.048 billion -- equal to the three-year taxes of 908,927 median income families.

### The Cost of Not Watching the Store

PPSS concluded that support operations in the Federal Government (housekeeping, travel, freight, mailing, printing, etc.) do not receive adequate attention, resulting in excessive costs and low productivity. These items, while relatively insignificant within the context of total Government spending, nevertheless amount to tens of billions of dollars annually and could be reduced significantly through implementing private sector procedures and controls to increase productivity, streamline operations, and develop the necessary information to determine how much is being spent, for what, and by whom.

In FY 1983, the Government spent \$14.4 billion in specific areas covered by PPSS recommendations, with spending estimated to increase to \$77.5 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to \$56.4 billion in 2000, a saving of \$21.1 billion or 27.2%.

Studies of the organization and management of the Federal Government focus mainly on such highly visible functions as defense, welfare programs, and agriculture subsidies, that account for the bulk of expenditures and have demonstrable impact on the lives of individuals, the economy, and the social structure. These, in turn, command the attention of the media, the Congress, the business community, and citizen groups.

Much less attention is given to the essential underlying infrastructure of Government which provides housekeeping and logistical support to facilitate the operations of Government. These include mailing and shipping, printing and publishing, travel arrangements, handling correspondence, collecting trash, and a thousand other strictly support activities which cannot otherwise be categorized.

As proprietors of small businesses know, these activities are a vital part of financial viability, requiring close management attention on a continuing basis. In very large, diversified organizations, however, there is a tendency to slight these matters, to delegate them to the lowest level of attention or, worse, to largely disregard them on the erroneous assumption that they do not have an attractive cost/benefit ratio. Whatever that ratio may be elsewhere, the sheer size of the Federal Government escalates the

cost of inattentiveness in many of these areas to great financial significance.

A major reason for lack of attention to housekeeping in the Federal Government is the absence of incentive. The simple fact is that the Federal Government does not adequately reward those who are "minding the store." Honors, rewards, pay increases, and promotions are passed out to those involved with policy and mission-oriented functions. Not even the oversight agencies such as the Office of Management and Budget (OMB) and the General Accounting Office (GAO) find the time or resources to examine such routine housekeeping and logistical matters sufficiently.

Should anyone care if they are left unattended? How many shipping overcharges or underutilized printing plants does it take to add up to something significant in an organization which spends more than \$850 billion annually?

Most of the activities of Government under discussion here are so far beneath the concerns of senior management that they do not know how much money is spent on them, where it is spent, or who to contact in the various agencies to find out. If one wanted to know how much the Federal Government spends annually on garbage collection or postage, there is no central source for that information, no central data-collection point, and no list of the agencies or officials to contact on the subject. In general, they are neither budgeted nor controlled by the Government's financial management and accounting systems.

There are, however, some functions in this general category about which enough is known to permit their use as illustrations of the results of this failure of management and what could be done to remedy some of the problems, such as:

- o The Government spent \$3.5 billion on housekeeping and general maintenance in FY 1983. PPSS concluded that attainable increased worker productivity and better supervision and scheduling could cut these costs by \$1.125 billion over three years.
- o Official travel, civilian and military, cost taxpayers \$4.8 billion in FY 1982. PPSS concluded that reducing the number of "no shows" on prepaid flights, increasing the use of overseas contract rates by non-defense agencies, and centralizing the travel function to take advantage of bulk discounts could save \$984 million over three years. Improved expense accounting and reimbursement procedures could save an additional \$171 million over three years.
- o Shipping and freight costs of the Federal Government were \$4.6 billion in FY 1982. The PPSS conclusion: automating and consolidating the freight management system could save \$530 million over three years. Additional savings of \$165 million could result from adopting audit procedures more in line with private sector practices.

- o The direct cost of Government mailings was \$900 million in FY 1982, and indirect costs (envelopes, processing, etc.) amounted to another \$900 million. PPSS concluded that consolidating mailing lists, better mail management, and accountability could reduce costs by \$645 million over three years.
- o Printing and publishing cost \$760 million in FY 1982. Eliminating unnecessary and obsolete plants, consolidating facilities, and increasing contracting out could save \$159 million over three years. Improved publications management could save an additional \$331 million over three years.
- o It costs nearly \$50 million annually to print new and destroy old Food Stamp coupons. PPSS estimates savings of \$30 million over three years from increasing denominations on individual coupons and increasing the value of coupon books.

In these six examples, PPSS estimates that there is potential to save \$4.140 billion over three years.

#### Housekeeping

Housekeeping encompasses many small, relatively unglamorous activities such as cleaning and repair services, painting, emptying waste-baskets, dusting, vacuuming -- things which are usually taken for granted. Most of the \$3.5 billion in FY 1983 was spent by the Department of Defense and the General Services Administration, with about \$1.4 billion (41%) contracted out to the private sector.

The General Services Administration (GSA) is charged with providing, among other things, most of the workspace for Federal departments and agencies. GSA controls nearly one-quarter of a billion square feet, or 5,739 acres, of building space, either through Government ownership or by lease. Its property portfolio is valued at approximately \$8 billion. GSA's payments for utilities and fuel during FY 1983 were estimated at about \$224 million, and its outlay for custodial services was expected to exceed \$190 million. Its annual bill for property maintenance runs about \$100 million.

Property related expenditures by the Department of Defense (DOD) make those of GSA appear modest. DOD spends \$2.5 billion annually on utilities -- nearly \$5,000 a minute. Real property maintenance costs DOD nearly \$3.2 billion a year, and yearly custodial costs are about \$1.5 billion.

- Q. PPSS has cited the lower productivity of Federal versus private sector maintenance workers as a prime factor

contributing to the \$1.7 billion annual custodial costs. How were productivity levels determined?

- A. PPSS compared worker productivity in Government to that in the private sector. General maintenance services are primarily performed by the GSA in all civilian and some defense facilities, including the Pentagon. GSA cleans the buildings, pays the utility bills, and generally runs the "house."

Productivity percentages gauge the level of productive activity observed through statistical work-sampling. It is the ratio of people observed working to the total number under survey, with the sampling being done with sufficient frequency and over an adequate length of time to offer high confidence in its accuracy. No observations are recorded during periods contractually provided for rest breaks, clean-up time, etc. A 100% productivity rating should never be expected in maintenance activities because of unavoidable delays involved in waiting for materials, equipment, and job assignments, as well as other inherent problems. However, anything less than 50% falls in the "low" range by private sector standards.

- Q. Are Government workers less productive than their private sector counterparts?

- A. Outside consultants and internal observers generally agree that government-wide productivity in carrying out in-house maintenance averages between 40% and 45% of potential. The private sector industry average is about 62%, or about one-half again higher. This is for a variety of reasons. A worker might be ready and willing to get the job done, but because the supervisor didn't schedule effectively, that worker is standing around waiting for equipment -- a vacuum cleaner, a paint brush -- which has to come from a different department. This is not a question of capability or of diligence on the part of individual Government workers. PPSS believes that the main reasons for low productivity lie in such areas as planning, estimating and scheduling techniques, as well as in training Government maintenance managers to understand the principles of productivity and in providing incentives for better performance. The potential payoff from improved productivity is great.

- Q. Does this mean that better supervisory personnel are the answer?

- A. Only in part. What is really needed is a reorientation on the part of supervisors and managers toward administration. The key requirement across the Government is "incentive." There is very little incentive for supervisors to improve their scheduling/administrative abilities, because promotions customarily come from being

good mechanics rather than good administrators -- i.e., the managers are too busy doing the job to supervise it, and the result is that it doesn't get done in the most productive way.

Q. What does PPSS recommend to improve the productivity of maintenance personnel?

A. To begin with, a government-wide program should be instituted. Each agency should have a person or unit responsible for planning, monitoring, and evaluating maintenance operations. For too long, these functions have been removed from the individual agencies and handled at GSA. Performance goals should be established; planning and scheduling skills upgraded. The Government should also draw on expertise from the private sector. There is no good reason Government productivity in the maintenance area should lag behind the private sector by 20%, or that the private sector should be 46% more productive.

Q. Assuming Federal worker productivity increases to the private sector average of 62%, how much could be saved on annual custodial costs?

A. Maintenance costs for real property in the Federal Government were about \$3.5 billion in FY 1983. Of this total, 41% (\$1.4 billion) was contracted-out. About 50% of the remainder (\$1.05 billion) represents in-house labor, whose productivity could be improved. PPSS made a basic assumption that productivity could increase from the present Federal Government average of about 42% to the private sector average of about 62%. This would reduce in-house labor costs to \$711 million, for a saving of approximately \$340 million annually, and \$1.125 billion over three years.

## Travel

In FY 1982, the Federal Government spent \$4.8 billion on employee travel, including \$1.3 billion for air travel. About 45% of the Federal travel dollar is spent on transportation, about 39% on subsistence, and the remainder on taxis, limos, phone calls, tolls, and miscellaneous. Government travelers take more than 15 million trips each year and utilize trip cash advances of more than \$288 million, about half of which are outstanding over 90 days.

About three-quarters of Federal travel expenditures -- \$3.4 billion in 1982 -- are incurred by the defense agencies, but all agencies incur some travel expense. The following table shows the breakdown:

[Table on following page]



.Travel and Transportation  
of Persons  
(\$ Millions)

|                                  | (1)            | (2)               |
|----------------------------------|----------------|-------------------|
| <u>Agency/Department</u>         | <u>1982E</u>   | <u>% of Total</u> |
| ( 1) Defense-Military & Civilian | \$3,449        | 71.5%             |
| ( 2). Transportation             | 171            | 3.5               |
| ( 3) Agriculture                 | 154            | 3.2               |
| ( 4) Treasury                    | 136            | 2.8               |
| ( 5) Veterans Administration     | 117            | 2.4               |
| ( 6) Justice                     | 106            | 2.2               |
| ( 7) Health & Human Services     | 104            | 2.2               |
| ( 8) Interior                    | 103            | 2.1               |
| ( 9) Other Independent Agencies  | 97             | 2.0               |
| (10) State                       | <u>73</u>      | <u>1.5</u>        |
| (11) Subtotal                    | \$4,510        | 93.5%             |
| (12) All Other                   | <u>316</u>     | <u>6.5</u>        |
| (13) Total                       | <u>\$4,826</u> | <u>100.0%</u>     |

Defense travel includes troop movements and relocations, which occur on a regular basis. Relocations, R&R, and emergency leaves can sometimes involve moving families around the world. On international flights, the Department of Defense uses commercial carriers when possible, and to save money, the Military Airlift Command (MAC) will buy a block of seats as much as a year in advance to obtain the best rate. Problems arise when all of the seats purchased are not used.

Most unused seats result because of "no shows" -- the seats are booked, but then the traveler doesn't show up and doesn't cancel. The seat has already been paid for, so Defense absorbs the cost of an empty seat. In the private sector, the "no show" rate on commercial airlines runs about 2% to 6%, which means that 94% to 98% of all reservations made are used. "No shows" are a fairly insignificant number. Seat utilization on MAC flights averages about 88% -- 12% of seats go empty because of "no shows". This is 3 times the private sector "no show" rate.

What did PPSS recommend to reduce the "no show" rate?

A. Reservations for MAC flights are made through transport officers at various defense installations. Because these installations do not have to pay for "no show" flights, the practices of double booking and not cancelling flights continue. PPSS recommended that, when a booked seat goes empty because of a "no show", the installation originating the reservation be charged a penalty for the seat. The charge should be sufficient to provide incentive for travel officers to reduce booking errors and for agencies to encourage passengers to meet travel commitments. The flights are paid for whether used or not. PPSS estimates that the utilization rate could increase to 94% if more care were exercised by travel officers at installations. That 6% increase in utilization translates into a \$50 million cost reduction over three years.

Q. If the flights are paid for anyway, how are there any savings?

A. "No shows" are often double-booked reservations or simply missed flights. The traveler is still traveling. Because there are limited seats available, those unable to travel on the MAC bookings have to resort to regular commercial flights -- which can cost more. The savings result because additional commercial flight seats would not be necessary.

Additional three-year savings of \$20 million could be achieved if low-cost overseas rates provided through the Military Airlift Command (MAC) operation were made available to personnel of other Federal agencies. MAC round-trip costs are about one-third the unrestricted coach fair on international flights.

Travel procurement in the Federal Government is very decentralized, and not all travel divisions are aware of the most recent rates or special fares. While certain general guidelines have been established pertaining to Government travel, they often deal with limitations and restrictions and have little bearing upon the efficient and economical procurement of travel services. Each agency administers its own travel budget and procures its own travel and related services. Since 1955, as a result of a ruling by the Comptroller General, Government agencies have been prohibited from using private sector travel agent services and have thus been deprived of this source of professional assistance.

Even if special fares were always used, which would certainly be a step in the right direction, a customer as large as the Federal Government should be able to negotiate additional discounts. Travel procurement, especially after airline deregulation, is highly complex and constantly changing; it demands full-time professional attention in order to ensure the purchase of

the most efficient travel services at the lowest cost. In recent years, the Federal Government has instituted certain studies and pilot programs, but thus far they fall short of achieving comprehensive managerial control over the Federal travel function. As deregulation proceeds, the opportunities for significant cost savings and management improvements in the procurement of Federal travel services continue to increase. The Government should be provided with the structure and tools to take maximum advantage of these opportunities.

Q. What did PPSS recommend be done to reduce Government travel costs?

A. PPSS recommended that the travel functions for all agencies be centralized -- creating a central travel bureau that can negotiate for volume discounts in hotel/motel chains, car rental companies, and transport lines.

The Federal Government requires professional, centralized in-house travel service capability. Since the Federal Government's annual expenditure for travel (\$4.8 billion, \$1.3 billion for air travel alone) is far larger than that of the largest private sector organizations, it is in a better position to profit from maintaining a professional, in-house travel procurement capability equipped with automated data processing necessary for current information retrieval and transfer. With limited exceptions, the Government generally pays for travel on the basis of publicly available rates, and not necessarily the lowest of those. This professional capability will permit the Government to search out the best current travel value. In addition, the Government's travel volume gives it the leverage to negotiate the lowest available prices if such information is centrally gathered, organized, and applied in global contract negotiations.

The Government should prepare to take advantage of the removal of regulatory restrictions which have in the past hampered its freedom to structure an efficient travel procurement program. Deregulation should benefit the Government as well as the private sector. The 1955 Comptroller General's ruling against use of commercial travel agents has been waived for test purposes, and such waiver should be expanded and extended. The CAB prohibition against negotiation of discounts in lieu of agent commissions on air fares will become history on December 31, 1984.

It is estimated that the establishment of central travel centers and centralized negotiation of rates could achieve three-year savings of \$984 million.

Virtually every Federal agency engages in significant travel, and each handles its travel administration, cash advances, expense accounting, and reimbursement in its own way. While certain Federal travel rules have general application (mostly of a limiting nature, e.g., classes of travel, per diem allowances, etc.) and while some oversight responsibility rests with the Office of Management and Budget (OMB), the General Services Administration (GSA), and the General Accounting Office (GAO), travel administration resides at the agency level and usually receives too little management attention.

The Federal Government's travel expense accounting and reimbursement process is inefficient and wasteful for several reasons:

- o Decentralized, non-integrated expense accounting systems do not hold individuals or agencies sufficiently accountable for Government advances and expenditures, and do not offer sufficient incentives for timely clearance of expense accounts.
- o Excessive administrative effort is expended on reconciling expense reports, partly because of inadequate reporting and accounting systems.
- o Excessive time elapses in clearing travel accounts.
- o Government lacks centralized control and an audit of agency travel practices.

Although there are several efforts underway to improve travel procurement, accounting, and reimbursement systems, these efforts do not adequately address the problem of a lack of timely accountability by employees and agencies for monies advanced and travel tickets purchased, nor the lack of incentives for timely reporting and clearing of travel expenditures. There is excessive use of cash advances which remain outstanding too long -- in FY 1982, the Government issued \$288 million in cash advances, about half of which remained outstanding over 90 days -- and substantial advances in the form of airline and rail tickets which are exchanged or unused without timely application for refund.

Q. What did PPSS recommend to improve government-wide travel accounting and reimbursement procedures?

A. PPSS recommended that the Government establish an integrated expense reporting system which will ensure prompt and inclusive accounting for all expenses properly attributable to Government travelers, including clearance of cash advances and accounting for unused or exchanged tickets.

Efforts currently underway to streamline the expense reimbursement process through consolidation of forms and

simplification of procedures must also address the fundamental problem of insufficient accountability of the individual traveler.

Unnecessarily large and longstanding cash travel advances are partially caused by excessive delays in processing travel accounts and partially by lack of a system requiring prompt, complete, and frequent accounting by the traveler.

The Federal Government should emulate the private sector in establishing more efficient expense accounting and reimbursement policies. One private sector device that could improve public sector efficiency is greater use of Government-sponsored charge cards with direct employee billing for use by frequent travelers.

Travel reimbursement policies such as the use of flat rate, locality-based per diem subsistence allowances in lieu of accounting for actual expenses would speed up the accounting and reimbursement process. The introduction of agency-sponsored personal charge cards issued to qualified Government travelers would reduce the need for cash advances and provide an additional incentive to the traveler to process ticket refunds and clear expense accounts expeditiously.

Simplified voucher and reimbursement systems, improved accounting procedures, and reduced turnaround time for travel expense accounts could save \$171 million over three years.

### Shipping

Shipping is a big expense in Government -- \$4.6 billion in 1982. The Federal Government is one of the largest movers of freight in the world. The Defense Department accounts for about 78%, or \$3.6 billion, of all freight costs. GSA is responsible for the remaining 22% (\$1 billion).

Traffic management in the Federal Government includes the rating and routing of more than six million shipments annually, and current procedures are neither uniform government-wide nor sufficiently automated to take advantage of volume discounts or lower rates. Furthermore, there is inadequate data gathering, lack of cooperation between DOD and GSA, and insufficient coordination to negotiate special rates based on overall volume.

The Federal Government has not taken sufficient advantage of the tremendous leverage which the huge size of its freight volumes (\$4.6 billion) give it in order to achieve economies in the movement of cargo and the negotiation of favorable freight transportation rates. The deregulated rail and motor carrier environment, for example, now offers wider competitive choices and

greater cost saving opportunities than ever before. However, deregulation is accompanied by increasing complexity in the proliferation of carriers, transportation rates, tenders and routes, and greater differences in the quality of service. Until recently, most of the Government's traffic management has been handled manually. However, the proliferation of rates and services has made automation a virtual necessity for cost-effective operation. Automation is now widely utilized in the private sector and is under development at the Department of Defense (DOD), which accounts for 80% of Government cargo.

- Q. How would automating information of Federal freight shipments reduce costs?
- A. Centralized automated information capability would not only enable the selection of optimum routing from the millions of routes and rates and the thousands of tenders, but would also permit consolidation of simultaneous shipments from various agencies and the negotiation of rates based on government-wide volume, and provide the data necessary for efficient audits of freight bills. An automated system will also enable all Government shippers to know the newest, most competitive rates offered by various carriers.
- Q. Will automating the shipping function put Federal practices on a basis similar to those in the private sector?
- A. Partly, but more is needed. Private sector firms utilize combined automated tariff libraries and rating and routing systems for selecting the most appropriate carriers, minimizing charges, and maximizing service. In addition, a private sector firm will audit carrier charges before paying for services. That is a sound business practice, but the Government is legislatively mandated not to perform audits before paying its bills. PPSS recommendations urging a reversal of this practice are set forth in the section on "Managing Its Systems -- Federal Financial Management."

On the basis of results achieved in the private sector, estimated three year net savings of \$530 million can be achieved through implementation of an automated, centralized freight management system. Industry experts generally agree that net savings in excess of 3% of total payments for all Government transportation could be achieved through automation of the monitoring and control of traffic practices government-wide. In addition, identifying the lowest tendered or negotiated rates and the best routes could achieve 2% to 5% savings on large volume, large dollar shipments.

## Mailings

Federal Government direct postal charges were estimated at \$900 million in 1982 and are expected to top \$1 billion in 1983, although the extent of actual postage and mail-related expenditures is not known. That is the cost of actual mailing -- equivalent to stamps or messenger services. The indirect costs -- envelopes, processing, etc. -- ran another \$900 million in 1982. In an election year, they are even higher.

Most Federal agencies do not buy stamps or use postage meters. Their postage costs are determined by a periodic survey of mail volume. Each agency is charged an annual fee for its mailings. Strict systems for maintaining Federal postal accountability do not exist, and there is no concentrated effort to improve postal management. The U.S. Postal Service has been experimenting with postage meters and stamps at some Government locations, and some Federal agencies have instituted their own postal management programs, but much more can be done to reduce unnecessary costs in this area.

Q. What are the problems with controlling mailing costs? Why doesn't the Government know how much this function costs?

A. There are several reasons. Poor mail management starts at the lowest levels and spreads upward. Many agencies follow uneconomical mail practices -- they use first class or priority mail services when second or third class would suffice. For example, GSA found that the Census Bureau was sending copies of surveys and publications by first-class mail, when third class was sufficient, resulting in extra costs of \$400,000 per year.

In addition, the responsibility for mail management is not clearly defined in many agencies, procedures are not widely disseminated, and personnel are often unaware of procedures for economical mailings.

The best way to reduce the costs of Government mailings is to make divisions accountable for their postage costs, which are not currently included in program budgets. Government managers do not have the accounting records necessary to control and reduce postal costs. Making personnel more aware of postage costs can be accomplished in several ways:

- o The Office of Management and Budget (OMB) should direct all agencies to evaluate mail practices and eliminate those that result in excessive costs.
- o An official should be designated in each agency with primary responsibility for postage/mail management.

- o GSA should work with the Postal Service to improve measurement of agency postal costs and provide technical assistance for improving mail management.

Better management and awareness of the cost of mail services could result in substantial savings.

A GSA study identified possible savings of 10% annually. PPSS reduced that estimate to exclude Congressional mailings -- only the Executive Branch was reviewed -- and came up with three year savings of \$550 million. Consolidating and updating mailing lists could result in additional savings.

The Government distributes hundreds of millions of free publications annually to recipients on thousands of mailing lists. The free mailing program wastes millions of dollars every year because erroneous or outdated mailing lists cause costly production, mailing, handling, and distribution of unwanted or unnecessary copies.

A successful program to correct the mailing lists of the Human Development Services (HDS) Division of the Department of Health and Human Services (HHS) saved a projected \$1.2 million per year in printing and mailing costs. In spite of the potential savings, other HHS divisions (with free mailing programs 16 times the size of HDS) have not followed the HDS example to bring their own mailing lists up to date. As a result, HHS alone may be wasting over \$19 million per year on unnecessary mailings. Consolidating and updating the Government's mailing lists could save \$96 million over three years.

- Q. Everyone at some point ends up getting two copies of a mail order catalog or some kind of junk mail. How can reducing duplicate mailings save so much money?
- A. Savings are large in an absolute sense because the Government is large. For example, in HDS 128 separate mailing lists with over 90,000 names were reduced to a single list of 29,000 names -- one third the size. In another instance, PPSS found that 29 copies of the same publication were regularly mailed to a single addressee.
- Q. What did PPSS recommend to improve mailing list management throughout Government?
- A. First, OMB should issue a directive requiring mailing list consolidation. In addition, the HDS software package should be publicized and personnel trained in its use. A special job classification for publications distribution management should be set up so that all lists are compatible and can be consolidated and checked without



major production. Remember, one division of one agency had 128 separate lists; multiplied across all divisions and all agencies the problem reaches immense proportions.

### Printing/Publishing

The Government publishes and prints books, pamphlets, and other reports on a myriad of topics ranging from housing and health to finance and education. In FY 1982, the Documents Sales Service of the Government Printing Office (GPO) distributed 17 million copies of free Government publications. It also mailed over 25 million publications for Executive Branch agencies. Through GSA's Consumer Information Center in Pueblo, Colorado, just under 14 million copies of free and paid consumer publications were distributed. Executive Branch agencies distribute unknown millions of copies of their own publications. There are also various forms with large distributions, such as the annual Income Tax forms. As another example, the Government spends \$50 million annually to print food stamp coupons. The Government can save money on all these publications, printed forms, and coupons.

- Q. Wouldn't savings on food stamps more likely come from better program management and stricter eligibility rules? How much can you save on the printing of the coupons?
- A. Because of changes in food stamp issuance patterns since 1975, changes in the stamp denominations should be made. The highest denomination now is \$10, and books total \$65. However, the average recipient now receives \$102 in monthly food stamps. Changing denominations to, say, \$20 and issuing books of \$100, reduces printing costs. PPSS estimates savings of \$30 million over three years -- enough to feed 7,463 families of four for a year. Food stamps are just one area of Government printing; there is much more to be saved in the printing of Government reports at the GPO and at Executive Branch print shops.
- Q. Does the Government publish its own reports?
- A. A large number of Government reports are published and printed through the GPO. Actually, GPO does not have figures on the number of reports, only the number of titles produced. GPO's sales inventory contains some 16,000 titles of Government publications. Not all of these are published on site at the GPO. GPO contracts out to the private sector about 71% of its total printing and binding work. The remaining work is done at the GPO and Executive Branch printing plants.
- Q. How many printing plants does the Government operate?

. In addition to the main GPO plant located in Washington, D.C., and six regional GPO printing plants located across the country, the Government operates 235 Executive Branch agency in-house printing plants. There are 37 in Washington, D.C. and 20 in suburban Maryland and Virginia, giving the Washington, D.C. metropolitan area the largest concentration of printing plants in the U.S.

Q. How much does Executive Branch printing cost?

A. Total Executive Branch printing costs were \$760.4 million in FY 1981, divided among agency printing plants, the GPO, and contracting out to the private sector. Agency printing plants produced 11.5 billion production units (one sided, 8 1/2" x 11" sheets of paper) at a total cost of \$191 million. 80% of GPO's work in 1981 was performed for Executive agencies, valued at \$554 million. GPO contracted out the bulk of its Executive agency work to the private sector. The agency print shops contracted out an additional \$15.4 million.

Q. Could this printing be done more efficiently and at less expense?

A. Yes. Plant eliminations and consolidations, increased contracting out to the private sector, and operation of a central printing plant could save \$159 million over three years. Most of PPSS's recommendations reiterate earlier suggestions by GAO and other agencies -- these potential solutions to the problems and the cost saving measures have been recognized by Government for the last ten years, without any action being taken.

Q. What is the bottleneck?

A. The GPO and Executive Branch printing plants fall under the administration and regulation of Congress -- the Joint Committee on Printing (JCP). Agencies have no control over the cost of printing at the GPO, and they are mandated by law to send their work to the GPO, unless it can be printed in-house (with size and volume restrictions) or they can contract it out themselves (if the job is less than \$500 in value). Agencies further have minimal control over the operations of their own in-house plants because so many decisions, concerning such matters as machinery, etc., require JCP approval.

Q. Why does Congress have jurisdiction over GPO?

A. Legislative Branch policy and regulatory control over all Government printing has a long and unique history. Prior to the administration of Abraham Lincoln, printing was virtually the only way to preserve and disseminate information. The Government's printing needs then originated almost wholly in the Legislative Branch.

- .
- Who did the printing before GPO?
- A. Printing was contracted out to private printers, but it became costly and rampant with graft and corruption. GPO was a good idea when it was established in 1860, and it was appropriate for Congress to oversee its operation -- more than 90% of GPO's work that year was for Congress, and in its first full year of operation, the Government's printing bill was cut in half.
- Q. What has changed?
- A. The Federal Government, 123 years later, is still attempting to function under an industrial manufacturing system designed to meet the printing needs of Congress, and driven by a labor-intensive, in-house production capacity. Today, the Executive Branch, not Congress, has the greatest printing need -- more than 90% of Federal printing originates in the Executive Branch. In addition, printing today is an increasingly high technology industry, but GPO remains a ponderous, labor-intensive organization that has not adapted to the demands of changing technology.
- Q. How has technology changed?
- A. "Printing" is no longer the only way of producing and preserving information. Where words and symbols on paper are required, computerized electronic and photographic production has now replaced the old methods. Advances such as laser printing, satellite transmission, and others still in the laboratory stage will further drastically revolutionize information technology.
- Q. What did PPSS suggest to keep Government from falling farther behind the new technology?
- A. Several things. First, obsolete and underutilized plants should be closed or consolidated. OMB should seek to work with the JCP to identify such plants and request that JCP collect information on each plant so as to effectively monitor resource utilization and plan accordingly. New audit procedures are necessary to make oversight functions more systematic. Equipment should be upgraded, since most GPO printing machinery is outdated. Nearly 40% of the equipment is rated "fair", "poor", or "unserviceable" by the agencies. This inefficient equipment also contributes to high costs for in-house printing because of downtimes to repair slower, less efficient machinery. In addition, the Government should contract out to the private sector all unrestricted printing needs.
- Q. Does contracting out to private companies save money?
- A. Yes. GPO sends out 71% of its work to private contractors. According to GPO records, commercial bid

prices have been consistently lower than GPO in-house costs of production: GPO prices have been, on average, 31% higher than the highest bid price, and 70% higher than the lowest bid price. GAO determined that 23% of the work that remained in-house at the agency print shops could have been contracted out -- and at 32% less cost. Said differently, it cost 47% more to retain these jobs in-house.

Q. You stated earlier that PPSS recommendations restate earlier GAO recommendations. Why is PPSS duplicating GAO's work?

A. GAO has made valid, cost-effective suggestions, some as far back as 1974, but the agencies and the JCP have not acted on these suggestions. PPSS is supporting GAO's findings and has estimated the savings which would result from implementation -- \$159 million over three years.

Another area of the publishing/printing function reviewed by PPSS is publications management. This activity includes the decision to publish, planning, design, audience targeting, writing, editing, procurement of printing and binding, promotion, and marketing. Executive Branch publishing costs have declined by \$30 million between 1979 and 1982, from \$1.372 billion to \$1.342 billion, primarily as a result of pressure from OMB to reduce costs. However, OMB's cost reduction directives have not been fully implemented and did not cover all types of publications. Publications management remains decentralized within the agencies. This decentralization results in a lack of information regarding the inventory of Government publications and the lack of a standardized accounting system for total publishing costs.

Q. What did PPSS recommend to make publications management more effective?

A. Government agencies should adopt an organizational structure which includes unified responsibilities for publishing functions, and coordination between publication and administrative managers. OMB should strengthen agencies' guidelines regarding types of publications appropriate for agency publication programs. These standards should help to prevent agencies from unnecessary, inappropriate, or wasteful publishing. OMB, in collaboration with GAO, should develop model accounting procedures to track and report now-hidden publishing costs, such as personnel, postage, and overhead.

Savings from instituting more effective publications management are estimated to be \$331 million over three years.

In addition to issues already discussed in this section, PPSS has reviewed numerous other support operations of the Federal Government. Recommendations include:

- o Improve management and accounting procedures for purchase and use of audiovisual, telecommunications, and copying and duplicating equipment.
- o Standardize Federal operations relating to security and vehicle fleet operation.
- o Reduce warehousing and storage costs for commodities, records and files, and idled DOD industrial plant equipment.
- o Reduce ocean freight differential payments on commodity shipments; expedite Federal Maritime Commission review of ocean carrier rates; facilitate procurement of inland container transport and reduce container detention charges; expand contracted-out transport of military personnel household goods to include shipments to Alaska and Hawaii.
- o Consolidate DOD freight traffic management and base support operations such as fire protection, housing management, accounting, and security across service lines.
- o Improve management and accountability for DOD aviation maintenance/readiness; and institute standardized, periodic reports on aviation and combat vehicle maintenance costs, personnel, and scheduling.
- o Reduce costs of printing and engraving currency by adopting a common Federal Reserve seal on all bills, and using offset rather than intaglio printing on backs of \$1 bills. Contract-out coinage strip manufacturing and eliminate the uneconomical strip production unit at the Philadelphia Mint.
- o Improvements in planning; centralized organizational structures for marketing, procurement, and transportation; and accelerated automation of mail processing and delivery systems could produce savings and increased revenues for the U.S. Postal Service of \$2.401 billion over three years. While not directly affecting Federal expenditures, implementation of PPSS recommendations could improve Postal Service efficiency and keep the costs of mailing from increasing.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is \$10.105 billion -- equal to the three-year taxes of 1.5 million median income families.

## Opportunities for Increasing Revenues

User charges are the fees collected from recipients of Government goods and services which are not shared by the general public. A high level of uncertainty exists in the Executive Branch about what charges can be collected for Government products and services because of court decisions and unclear administrative policy. Practices in the Federal Government do not provide sufficient information and accountability for efficient and effective management of user charges and, as a result, the Federal Government frequently fails to recover full costs. PPSS believes user charge programs are similar to commercial businesses and should be conducted in a business-like manner. To accomplish this, PPSS recommended that a centralized service and product planning function be established to continually bring to management's attention opportunities for initiating or revising charges.

In FY 1983, the Government spent \$9.8 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to \$43.5 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to \$24.6 billion in 2000, a saving of \$18.9 billion or 43.4%.

The Federal Government provides a variety of services and products to the public which are of a commercial nature. PPSS identified more than 1,500 commercial activities performed by the Government, including the printing and sale of publications, maintenance of camping and recreational facilities, and the provision of survey, inspection and appraisal services.

The sale of these products and services generated approximately \$40 billion for the Government in 1981. The pricing, i.e., "user charge," of these products and services, however, frequently does not recover the Government's costs.

Because of court decisions and unclear administrative policy, there is great uncertainty and confusion in the Executive Branch about what amounts can and should be collected for Government products and services. This is despite authorizing statutes, an implementing OMB circular, and more than \$40 billion collected annually.

Section 483a of Title 31 of the U.S. Code (Independent Offices Appropriation Act of 1952) provides the statutory authorization for user charges. Agency heads can establish, by regulation, fees for services or products provided to the public, "taking into consideration" direct and indirect costs to the Government, value to the recipient, public policy or interest served, and other factors. However, since 1974, the Supreme Court and several lower courts have heard cases and rendered decisions which, in the process of defining the scope of "fees," have provided differing methodologies for determining the amounts and the beneficiaries.

The responsibility for user charge policy and implementation at the central Government level rests with OMB. There is one OMB official whose duties include monitoring user charge activities in the Federal Government. Merely compiling the collected statistics on user charges takes all of the time available. Implementing and monitoring policy directives is left to budget examiners and otherwise fragmented within OMB.

In attempting to recover the cost of providing services, PPSS found that agencies inconsistently apply general pricing principles established by OMB. For example, both the National Aeronautics and Space Administration (NASA) and the Department of Defense (DOD) maintain wind tunnels for research and development by the Government and the private sector. NASA charges \$2,000 per hour for the use of its wind tunnels, whereas DOD charges \$6,000 per hour. NASA has taken the position that certain indirect costs should not be included in their charges, whereas DOD includes them. The obvious result of this inconsistency is that private sector industries, as well as Government agencies, including DOD, overuse the NASA facilities. The NASA interpretation of Government policy results in loss of revenue to the Federal Government. The DOD interpretation is in line with the pricing principles used by the private sector to the extent that full cost recovery is sought. As another example, the Interstate and Defense Highway System recovers, through a schedule of excise taxes, the full cost of the Interstate Highway System. By comparison, the excise tax scheduled for the inland waterways and the airport and airways systems recovers only about 5% and 85% of the cost of those systems, respectively.

The user charge system is complicated and leads to misunderstandings. More than half of the program managers interviewed by PPSS were critical of the existing system. The primary objection is the perception that the accounting systems are unable to meet the day-to-day needs of program management. These shortcomings include the inability to give credit or recognition for the collection of the receipts, lack of clarity as to appropriate accounting methods, difficulty in determining the amount of funds available for program operation, difficulty in determining accountability for program performance, and inability to allocate between user charge, business-type activities and general public purpose programs.



PPSS's analyses confirmed the findings of a number of previous studies conducted by the General Accounting Office (GAO) and the Congressional Budget Office (CBO) that user charge policies and procedures are inconsistently applied in Executive Branch programs. As discussed earlier, Supreme Court decisions, which provide differing methodologies and factors for determining amounts of fees and beneficiaries, have created confusion and misunderstanding about user charge authority. But even in those situations where there should be no question as to the application of guidelines and principles, systems employed do not provide adequate program guidance. PPSS found that management information systems, accounting systems, program evaluation, and accountability are generally ineffective and, in some cases, confusing.

It should be remembered that user charges, whether sufficient or insufficient, are paid by a discrete section of the population. For a broad range of Government-provided commercial services, there is no justification for the population as a whole -- and for taxpayers as a group -- to subsidize a small section of clearly identifiable beneficiaries.

User charge programs are similar to commercial businesses and should be conducted in a "business-like" manner. To meet this objective, PPSS recommended that:

- o A centralized service and product planning function similar to that found in the business community be established in the departments and agencies and in the Office of Management and Budget. This function would:
  - continually bring to management's attention opportunities for establishing or revising charges for services and products;
  - maintain sufficient information and accountability for the production of those products and services to recommend regular price adjustments as needed;
  - monitor comparable business activities, making recommendations for program incentives and improvements; and
  - provide incentives to those with decision-making power to conduct the Government's commercial activities in a business-like manner.
- o The pricing of Government products and services incorporates the standard economic principles used to develop market clearing prices for goods whenever possible. Market prices should generally be set for the sale or rental of Government products and property, with a goal of full cost recovery.

- o Deposit of receipts into revolving fund accounts to:
  - o provide more visibility to the transaction by relating expenses to revenues;
  - o provide incentives to program managers by recognizing accomplishments and/or evaluating management results; and
  - o assure users that funds will be available to maintain or enhance the product or level of service.
- o Employment in user charge programs should not be subject to the general personnel freezes and ceilings used as budget controls provided these positions are, at a minimum, self-sustaining.
- o The statute authorizing the collection of user charges should be amended to overcome the difficulties in determining amounts of user charges and identifying beneficiaries. The amendments should clarify the scope of the issue of user charges and minimize the inconsistencies in application.

The opportunities identified by PPSS for increased user charge revenue generation can be accomplished through clarification and restatement of user charge policies and procedures, improved management and accountability, and Congressional action to remove existing prohibitions or to grant expanded authority to implement fees.

PPSS identified potential user charge increases which would generate revenues of \$20.721 billion over three years before consolidation of overlapping and duplicate recommendations. These revenue increases come primarily from increases in existing fees, as well as the identification of existing programs for which new fees should be charged. Major categories for revenue increases include sales of products and services, transportation, special services, recreation, regulation and licensing, and inspection and grading.

The sales activities of the Federal Government provide the potential for additional revenues of more than \$5 billion over three years through more appropriate pricing of products. In one area alone, electricity sales, revenues could increase by \$4.543 billion over three years if Power Marketing Administration prices were brought more in line with private sector utility rates.

Q. What are Power Marketing Administrations?

A. Power Marketing Administrations (PMAs) are five divisions in the Department of Energy (DOE) that administer Federal power generating facilities and sell "surplus" power. The

PMAs sell between 6% and 8% of all the electricity generated in the United States, making DOE the largest single seller of electricity in the Nation. Most of the power sold is hydroelectric. Rates are supposed to cover operation and maintenance costs, interest, and capital expenses (construction). Those served by PMAs are receiving a Government benefit because the ratemaking process includes an improper allocation of capital costs.

- Q. How much are PMA customers paying for their power?
- A. User rates charged by PMAs are about one-third the national wholesale rate charged by non-Federal utilities (1¢/kwh vs. 3.3¢/kwh national average).
- Q. Didn't PPSS recommend elsewhere that the Power Marketing Administrations be sold, i.e., privatized?
- A. Yes. But that is likely to involve a long process. In the interim, rates should be brought more in line with those charged by the private sector.
- Q. Why has the improper allocation of capital costs at PMAs continued? Is there resistance in Government to fairly allocating capital costs?
- A. Congress has effectively blocked any action on, or even discussion of, rate changes. A bill was passed in 1982 prohibiting the use of any funds for the purpose of conducting "any studies relating to or leading to the possibility of changing from the currently required 'at cost' to a 'market rate' method for the pricing of hydroelectric power" by the PMAs.
- The possibility of even broaching the subject had been choked off, as PPSS discovered during the summer of 1983. OMB officials stated that they could not discuss PMA rate-setting since to do so would constitute a specifically prohibited expenditure of Federal funds in the form of the salaries earned during the discussion.
- Q. Has PPSS recommended higher prices for all Government products?
- A. The greatest problem with Government sales of products and natural resources has been the difficulty of establishing prices. From appraisal of timber to selling maps, from firewood to soil survey reports, existing prices are too low or fees are non-existent. Activities are also inconsistent in the application of established policies and principles.
- Q. What are the problems in pricing Government products and services?

- A. Two major problems were identified, one of which centers on insufficient management accountability and control. Most agencies which provide products and services do not have the systems which are needed to account for and allocate true costs. Without this basic information, it is impossible to establish proper prices.

A second reason is that Congressional controls often prohibit fees or, in the case of grazing fees and power, establish formulas for setting prices that don't include all of the cost components.

- Q. What examples of inconsistent pricing policy did PPSS note?

- A. Prices for grazing on Federal lands are established under the same system for the Departments of Agriculture and Interior, but for military and Indian controlled lands the prices are set independently. As another example, publications are distributed free by one agency while a fee is collected by another, and in some instances this occurs for the same publication.

- Q. What other sales programs have potential for higher revenue?

- A. There are 82 separate budget accounts containing receipts from the sale of Government products. PPSS has reviewed several of these in depth and has also identified two additional candidates for new fees. In four specific areas -- grazing fees, firewood, soil surveys, and foreign military sales -- there is potential to increase Federal revenues by \$547 million over three years.

Grazing fees for the Agriculture and Interior Departments are currently tied to a formula set by Congress. Revising current policies to increase grazing fees would raise revenues by \$125 million over three years.

Initiating fees for firewood collected on Government lands and charging a nominal fee for soil surveys could increase revenues an additional \$91 million over three years.

Charging foreign customers additional amounts to cover administrative costs of the services provided by the Defense agencies would save \$331 million over three years.

In dollar terms, the transportation user charge programs of the Federal Government are some of the largest. The Highway Trust Fund amounted to \$8 billion in FY 1983 and is expected to grow to \$12 billion in FY 1984. It accounts for more than 40% of the total budget of the Department of Transportation. The potential user charges for inland waterways and ports and channels exceed \$1 billion annually.

The Army Corps of Engineers (COE) and the Tennessee Valley Authority construct and maintain locks, dams, and channels that facilitate commercial traffic on U.S. inland waterway systems. The COE is responsible for most of the Government activity in this program. The FY 1981 budget obligations for construction, operation, and maintenance were approximately \$850 million. User charges recovered only about \$24 million, or less than 3% of the total 1981 obligations.

By comparison, the Federal Highway Program has been funded over the past 24 years through a system of user fees based primarily on a fuel tax. Until recently, the collected user fees provided for 100% of the program costs. In 1981, however, this dropped to 82%. Legislation approving an increase in the tax was passed at the end of 1982, bringing the user fee back to the 100% level.

As demonstrated by these two examples, inconsistent application of user charge policy by the Federal Government results in user fees funding 100% of the Highway Land Transportation System, for example, but only 3% of the Waterway Transportation System, requiring the U.S. taxpayer to pay 97% of the costs.

PPSS recommended that user charges on inland waterways be increased over a five-year period to obtain 100% cost recovery of operations, maintenance, and construction. Revenue increases are estimated to be \$601 million over three years after full implementation.

In addition, PPSS recommended that user fees be collected for maintenance, operation, and construction of deep draft harbors and channels (deep draft harbors and channels are defined by the COE as those having a depth in excess of 14 feet).

Deep draft harbors and channels of the United States serve a major role in domestic and foreign commerce. As calculated in 1981 and reported by the Senate Environment and Public Works Committee, over 1.8 billion tons of merchandise moved through these harbors and channels.

No user fees are currently levied for the operation and maintenance work on deep draft harbors and channels performed by the Corps of Engineers. In addition, construction of deep draft harbors is usually financed by the Federal Government for local port authorities over 50 years at 3% annual interest.

PPSS recommended that user fees be initiated on deep draft harbors and channels to recover 100% of the cost of operations and maintenance. In addition, the Federal Government should end its role in financing harbor construction, especially large projects such as giant coal harbors. If the Government does continue financing construction projects, the interest on the loans should be at the market rate. Implementing PPSS recommendations could increase Federal revenues by \$747 million over three years.

Q. PPSS stated that the Army Corps of Engineers (COE) is responsible for the operation and maintenance of the U.S. waterways. How did this become their responsibility?

A. For over 150 years, COE has been responsible for many of our Nation's water projects, including navigation, harbor erosion, and Federal flood control. These tasks fell upon COE because at the time it was the only group of organized engineers in the country.

The responsibilities of COE are usually divided between construction and operations and maintenance of inland waterways and deep harbors and channels.

Q. How much is spent annually on the operation, maintenance, and construction of the U.S. waterways?

A. A total of almost \$1.2 billion is spent annually on the inland waterways and deep draft harbors and channels. Based on historical data from the COE, about \$500 million a year will be spent on construction (\$120 million) and operation and maintenance (\$380 million) of deep draft harbors and channels. An additional \$670 million is spent on construction (\$400 million) and operation and maintenance (\$270 million) of the inland waterway system.

Implementing PPSS recommendations would enable the Federal Government to recover 100% of these costs.

PPSS has also identified 108 Special Services provided by the Government to specific beneficiaries. Time and manpower constraints limited the PPSS review to three such services. Increasing user charges for these services could raise an additional \$1.0 billion over three years. The three areas identified are:

User fees for Coast Guard services;

Charges for Freedom of Information requests; and

Fees for customs inspections of international aircraft entering the U.S.

Q. What services does the Coast Guard perform that are user-specific? Is PPSS suggesting that beneficiaries pay for search and rescue operations?

A. PPSS recommended that beneficiaries pay for operations associated with non-life-threatening incidents, such as supplying gas or towing. It is recommended that user charges be collected for other Coast Guard activities, including short-range navigation aids, domestic ice

breaking, recreational boating safety, and bridge administration. These programs benefit a specific, readily identifiable segment of the public.

Q. How much additional revenue could be generated by instituting user charges for these Coast Guard services?

A. PPSS estimates increased revenues of \$418 million over three years.

Q. PPSS estimates increased revenues of \$232 million over three years from charging a fee for Freedom of Information Act requests. Isn't there already a charge for this service?

A. The Freedom of Information Act (FOIA) allows the public to request information from the Government. If the request is considered in the general public interest, no charge is made. In other cases, a charge is made to cover the search time, and the costs of copying the document. However, the charges do not cover the costs of reviewing the document to remove material which is proprietary or classified, as well as information protected by the Privacy Act.

The practice of requesting information under FOIA has become part of regular market research. Industry is taking advantage of Government resources to obtain information that is of economic benefit to them.

In fact, since passage of the Act, some companies have specialized in filing FOIA requests for others. These companies provide their services primarily to business and industrial clients at fees that are frequently three to four times the charges of the Government agencies.

Q. What services does the Customs Service provide which should be funded from user charges?

A. Customs is engaged in a number of special activities and services that provide benefits to identifiable users. The services include entry of vessels, clearance of vessels, issuing permits to foreign vessels to proceed from district to district, receiving a manifest of foreign vessels on arrival from another district, and granting a permit to unload.

A good portion of the services are being reimbursed through existing user fees, but some are in need of upward adjustment. For example, in the case of entry and clearance of general aviation aircraft, the existing fee is established by Congress at a maximum of \$25, and that can be charged only after normal working hours. Based upon Customs calculations as to the amount of time spent in processing aircraft and passengers in FY 1981, \$3.15 million is obligated for this activity. Under the existing

fee system, \$376,945 was collected in FY 1981, only 12% of the cost of this special service.

In other cases, Customs is not charging a fee for its services, so that the implementation of new charges would result in 100% cost reimbursement plus the additional cost of collecting the fee.

Q. How much additional revenue would be collected from increasing charges for Customs Services?

A. Over three years, additional revenue generated from PPSS recommendations would be \$364 million.

Recreational activities provided by the Government include facilities for camping, swimming, and skiing; picnic areas; wilderness areas; trails; ramps for river and lake access; and special attractions such as visitor centers and exhibits.

Seven Federal land-management agencies provide recreational activities:

1. Bureau of Land Management
2. Bureau of Reclamation
3. Fish and Wildlife Service
4. National Park Service
5. Army Corps of Engineers
6. Forest Service
7. Tennessee Valley Authority

The National Park Service and the Forest Service provide recreational activities as part of their missions, while the other five agencies primarily perform services which result in recreational activities as a by-product.

PPSS's recommendations centered on increasing fees for all Federal recreational facilities and channeling these revenues back to the operation and maintenance of these facilities.

Q. How much could Federal revenues increase through higher charges for recreational facilities?

A. PPSS estimates a three-year revenue increase of \$528 million. Before these revenues can be realized, however, better accounting procedures and program management are necessary.



- Q. Why are accounting and management improvements needed before revenues can increase?
- A. The mixed resources and functions of the seven agencies with recreation facilities result in difficulties in administering recreational programs. Program managers have to exercise judgment in allocating costs between those that benefit the public at large and those that benefit specific groups. To make these decisions, good management information systems are critical.
- Q. What information systems did PPSS recommend?
- A. The seven agencies involved should institute precise accounting for all costs attributable to recreation facilities, including the capital cost of equipment, improvements, personnel costs, operation, and maintenance. A single product or service planner should be responsible for overseeing the Federal recreation fee program, and steps should be taken to establish a "single passport" concept, allowing the purchaser entrance into all Federal recreation areas.
- Q. Will consolidating control of recreational facilities and better accounting bring about a system where recreational fees collected would cover the costs of operating all Federal parks and wilderness areas?
- A. No. The collection of user fees of all kinds represents only a small portion of total funding for recreation programs. That's because there is a substantial public benefit derived from maintaining our national forest and wilderness areas for present and future generations which cannot be assessed to specific users.

In addition to sales, transportation, special services, and recreation activities, two other activities, inspection and grading, and regulation and licensing, offer potential revenue increases of \$246 million over three years.

- Q. Aren't inspection and grading activities performed for the public good? How can a user charge be attached to such services?
- A. The Government conducts many inspection and grading activities across a wide spectrum of products. Many, such as meat inspections, are mandatory and benefit the general public. Others, however, are voluntary (for example, meat grading and grain inspection) and are performed by the Government at the request of the user. This distinction between voluntary and mandatory activities should determine

whether a user fee should apply. PPSS has identified voluntary inspection programs where user fees should be updated or instituted; three examples follow:

- o Update the fee schedule of the Agricultural Marketing Service to include fees for cotton grading and licensing and for cotton and tobacco newsletters and other activities (revenue increase of \$29 million over three years).
- o Increase Federal grain inspection service fees to recover 100% of costs (revenue increase of \$6 million over three years).
- o Update the HUD fee schedule for manufactured (Mobile) home inspections to recover the full cost of inspection and administrative costs, and allocate funds collected to offset administrative costs and enforcement of the Manufactured Housing Program (revenues are estimated to increase by \$1 million over three years).

In addition to instituting user charges for inspections and gradings, there are instances where inspections could be done without direct Federal involvement, such as inspection of dairy plants.

Q. Aren't there Federal requirements for dairy inspections?

A. Dairy inspections are now made by the USDA, the FDA, and state agencies. By relying on state inspections, performed under cooperative inspection agreements utilizing Federal standards, the entire cost would be borne by the states, and the state inspectors could monitor all requirements, Federal and state. Transferring this function to the states could save \$5 million in Federal funds over three years.

Q. What are the potential revenue increases from increasing user fees for Federal regulatory and licensing activities?

A. PPSS has found two programs where regulatory and licensing fees could be increased to generate additional revenue of \$209 million over three years. First, PPSS recommended that the Federal Communications Commission (FCC) institute application fees and user charges for licensing and regulating activities in interstate and foreign communications. Second, the Federal Energy Regulatory Commission (FERC) should increase user fees to recover the costs of regulatory services.

PPSS has developed many other recommendations to allocate the costs of services to specific beneficiaries in areas as wide

ranging as increasing the costs of Federal publications, including maps and charts, and increasing concessioner franchise fees in the National Parks, increasing loan origination fees on Federally guaranteed loans and on GNMA mortgages, and increasing fees at the Metropolitan Washington Airports. Additional Government products and services which benefit a readily identifiable group and which should be funded through user charges include the following:

- o Initiate user fees for issuance of SBA-guaranteed debentures of the Small Business Investment Companies and on Federal Home Loan Bank borrowings which, as a result of their agency status, can be issued at reduced rates, and initiate transaction fees to cover the operating costs of the Commodity Futures Trading Commission;
- o Eliminate credit to timber purchasers for funds spent on Forest Service road construction; use National Service Life Insurance and Veterans Special Life Insurance fees to pay for the administrative costs of these self-supporting programs, costs which are currently paid from Federal revenues; and
- o Institute user fees for safety assessments and R&D services performed for railroads; recover the costs of regulatory services provided by the Federal Energy Regulatory Commission to identifiable users; and increase user fees for services provided by the Agricultural Cooperative Service.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is \$10.867 billion -- equal to the three-year taxes of 1.6 million median income families.

## Optimizing the Use of the Private Sector

Government manages best those things that are closest to its traditional functions of providing for the general welfare and security. There are numerous functions and services currently performed by the Federal Government which could more efficiently and cost-effectively be performed outside. However, Congressionally imposed limitations on transferring functions to the private sector, opposition from Federal employees, and a lack of centralized, systematic, and continuous concern have resulted in a continuing expansion of the Government's commercial activities. PPSS concluded that privatization and contracting out provide significant savings opportunities, and recommends the establishment of a central Executive Branch authority to identify and facilitate work toward their realization.

In FY 1983, the Government spent \$38.9 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to \$209.8 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to \$145 billion in 2000, a saving of \$64.8 billion, or 30.9%.

Privatization involves the transfer of an activity, or part of an activity, currently performed by the Federal Government to a private entity. Privatization increases efficiency by targeting Government resources to those activities best performed by Government while turning over to the private sector those activities that can be more efficiently performed outside of Government.

In some cases, the Government has become involved in businesses or initiated services because there were no alternative private sector sources available. However, as these services become established, and as alternative sources for providing these services develop, privately or at the local Government level, Federal resources are no longer necessary.

With a FY 1983 operating budget of approximately \$850 billion, the Federal Government is the largest conglomerate in the world. It is the largest power producer; insurer, lender, and borrower; hospital system operator; landowner and tenant; holder of grazing land and timberland; owner of grain; and warehouse operator, shipowner, and truck fleet operator.

Many of the services provided by the Federal Government could be provided more effectively and at less cost by the private sector. The Government, by directly producing services which could be produced in the private sector, creates a separate, uncompetitive market with no pressure to control costs.

Q. Doesn't the Government provide many services, such as electric power, at less cost than private industry, and why shouldn't it continue to do so?

A. The low cost of such Federally financed and operated facilities is a fallacy. As an example, the Bonneville Power Administration, which provides "low cost" power in the Washington/Oregon/Idaho area, generated cash deficits of between \$500 million and \$1 billion in each of the last five years. A primary reason for this shortfall is that the rate making process does not fully reflect the costs of producing and transmitting electricity, including the amortization of the capital investment. Customers are being provided with power at about one-third the cost charged by private power companies, but that is because taxpayers across the country are subsidizing electric customers.

Another example is Veterans Administration (VA) medical care. When the VA is unable to provide nursing home beds to veterans, it frequently uses private sector nursing homes. In FY 1981, the average cost for patient care in private nursing homes used by VA was \$45 per day. The cost incurred within VA's own facilities for similar care was \$109 per day, or 2.4 times as much.

PPSS recommended that an Office of Federal Management (OFM) be established, with primary responsibility for identifying opportunities for privatization across Government. Within the structure of the OFM, there should be processes for:

- o pursuing existing opportunities for privatization and identifying additional Government-produced products or services which can be privatized;
- o ensuring that agencies and those engaged in the legislative process routinely consider privatization as an option; and
- o soliciting private sector proposals for privatizing Government functions. Procedures should provide for soliciting, accepting, evaluating, and monitoring such private sector proposals.

Fundamental to the process, privatization should be established as an option when program objectives are debated, molded, and implemented. In addition to working to move programs from the Government to the private sector, the process should also work at the national policy level to ensure that the privatization option is considered early in a program's life cycle.

Q. Why are Federal costs for similar services so much higher?

A. One of the primary reasons is that there are no incentives to operate efficiently because Federal services have the ultimate safety net -- they cannot fail financially. PPSS has found three conditions which tend to promote operational inefficiency: (a) inefficient management tends to be rewarded with higher appropriations and more staff; (b) Government businesses are insulated from competitive pressures and thus need not address fundamental changes; and (c) powerful constituencies exist within and outside the Government that can and do effectively lobby to prevent change while taxpayers, all 90 million of them, remain moot. For example:

- o Budget allocations are made to individual VA hospitals on the basis of the number of patient-days each hospital records during the year. This creates an incentive to increase admissions and delay discharge until there is another patient to fill the vacated bed. Any hospital that fails to meet its target patient-day workload loses a portion of its budget appropriations -- a reverse incentive, the burden of which must be borne by the taxpayer.
- o Once the Government decided to provide the military with the benefit of less expensive food, it chose to implement this service by establishing a complete retail grocery system. This duplication of private sector services is inefficient because there are no driving forces of marketplace competition. The Government, by directly producing the commissary service, creates a separate, uncompetitive market with no pressure to control costs.

Q. How did military commissaries come about?

A. Military commissaries were established to serve soldiers in frontier posts situated miles from the nearest city. The program has evolved so far beyond its original intent that today there are 238 commissaries in the continental U.S. alone -- including six in such "outposts" as Washington, D.C.; five in San Francisco; four in San Diego; four in Norfolk, Virginia, and five in San Antonio -- costing taxpayers \$758 million for FY 1983 in appropriated funds,

inventory carrying charges, sales and excise taxes foregone, and miscellaneous other costs.

Q. How much could be saved by terminating commissary operations?

A. Closing commissaries in the continental U.S could save \$973 million over three years. A preferable alternative to closure, however, would be to privatize the commissaries -- i.e., rent out the space on military bases to private firms. This would offer opportunities for rental income, tax revenues, while eliminating subsidies. It would also get the Department of Defense (DOD) and the armed services personnel out of the grocery business. And the revenue potential is great -- \$2.447 billion in cost reductions and revenue enhancements over three years.

Q. The rationale for the privatization of the commissary system is straightforward. Why hasn't something been done previously to get the Government "out of the grocery business"?

A. The commissary system continues and, in fact, grows because vested interests voice their opposition to privatization while the vast majority of taxpayers, who are subsidizing the commissary system, remain silent.

For example, when PPSS recommended the elimination of taxpayer subsidies to commissaries, the following appeared in the August 15, 1983 issue of Exchange and Commissary News:

It's time for this market to wake up and stop waiting for the House Armed Service Committee to constantly stop everything negative from becoming law. Our associations and key industry leaders must anticipate rather than react to head off moves to contract out or close the commissaries.

One strategy to maintain the status quo is the expansion of the number of potential beneficiaries of the commissary system. The more beneficiaries, the more pressure and votes that can be brought to bear to resist change.

Following the announcement of PPSS findings, three pieces of legislation were introduced, the effect of which would be to expand the number of users of the commissaries:

1. On June 13, 1983 an amendment was introduced to allow the use of commissary stores by all those persons who have left the military, are entitled to retired pay, but have not yet reached retirement age.
2. On July 13, a proposal to open commissaries to "former spouses" of military personnel was introduced.

3. The FY 1984 Defense Department Appropriations bill establishes a test program for the use of commissary stores by military reservists. This program, if fully implemented, could bring 950,000 new patrons to the commissary system.

The military services build new commissaries from sales proceeds without having to seek construction money from Congress. No oversight has been exercised by Congress to prevent the emergence of new commissaries in metropolitan areas or the duplication of services. In the San Antonio (Texas) metropolitan area, for instance, where five commissaries can be found, two are on Lackland and Kelly Air Force Bases, which literally border one another.

Once new commissaries are constructed, the House Armed Services Committee has routinely raised commissary appropriations to provide these new stores with employees and inventories. The result has been to make commissary expansion self-perpetuating. With at least another 25 new commissary construction or renovation projects already underway, long-term and even higher levels of taxpayer support appear likely in the absence of corrective action.

Finally, the centralized review process which PPSS has recommended should identify programs that, due to costs or project magnitude, had to be initiated in the public sector, but which could now be shifted to the private sector. An example is the Space Shuttle program, the magnitude, cost, and risk of which made private sector development impractical. Now that the spacecraft is operating, an option to begin the privatization of the program through private sector funding and technology transfer could prove reasonable and cost-efficient for the Government.

PPSS identified sizable savings from privatization, including:

- o greater private sector participation in the NASA Space Shuttle program, with an estimated \$1.523 billion in Federal funds replaced by private sector resources over three years.
- o less Government involvement in processing and disseminating LANDSAT satellite data. Selling the unprocessed data, which is commercially used to create maps and charts, to private firms for processing and distribution could save operating costs and increase revenues by \$47 million and \$450 million, respectively, over three years.
- o reduced funding of market development organizations. Phasing out Government funding for groups such as the U.S. Wheat Association, where the membership is large



enough to support the organization without Federal subsidy, can save \$37 million over three years.

- o closure or privatization of all military commissaries in the United States. Revenue potential from renting out commissary space on military bases could be as much as \$2.447 billion over three years.
- o sale of the Metropolitan Washington Airports (MWA) to a local airport authority. MWA is currently owned, operated, and regulated by the Federal Aviation Administration (FAA) and the Department of Transportation (DOT). This puts the Government in the role of supplier and regulator of services at MWA, which inhibits long-range planning and financing of improvements. Combined revenues and savings to the Federal Government from this sale could be \$455 million over three years.

Savings and revenue enhancements from privatizing only the five above-mentioned areas are estimated to be \$4.959 billion over three years.

Q. Did PPSS recommend that the Space Shuttle Program be privatized?

A. PPSS recommended that private industry be allowed to participate through financial investment in NASA's National Space Transportation System (NSTS), which operates the shuttles, so that commercial applications can be developed.

The space industry represents the world's next major advanced technological business frontier and an important economic base for the United States and other developed countries. Currently, the United States is a leader in the space industry market. An important support service needed for the development of the space industry is space transportation. The U.S. Space Shuttle system, in particular, is essential to the development of future commercial space activities. For example, the shuttle would be instrumental in the construction of permanent orbiting space stations as well as facilities for manufacturing and solar energy generation.

A commercial world market for space-related industries already exists. Three major market segments are the satellite industry, space launching services, and Materials Processing in Space (MPS). The satellite business industry is represented mainly by communication satellites that are used for such functions as data transmission. Expendable Launch Vehicles (ELVs) are the major space launch hardware used, as they have been operational longer than the Space Shuttle system. ELV space launching services are dependent

primarily on an increased need for communication satellite launches, while the shuttle would also benefit significantly from increased space science research and space applications such as MPS. The most recent space application technology, MPS represents manufacturing in the near-zero gravity environment of space that may produce new alloys and unusually pure crystals, drugs, and lenses. It is expected that when it is proven to be viable commercially, MPS will become a major space industry requiring the construction of orbiting manufacturing facilities.

Q. Would it distort NASA's mission in the areas of research and national security to have private interests involved in the program?

A. No, it would enhance NASA's ability to concentrate on its mission. Private sector involvement would mean private sector funding, technological expertise, and management input, freeing NASA for more research and development activity and allowing Federal funds to be reallocated to other developmental space projects.

Q. Involving the private sector in the Space Shuttle program appears to be a very novel idea; is there a precedent for such involvement?

A. Federal research and development funds have traditionally been used to create new technologies that have been transferred to the private sector for commercial application. For example, aviation is a recent Government-developed transportation technology that was turned over to the private sector. Weather and remote sensing satellites could be the next space technology to be privatized. The National Space Transportation System is a Government-developed transportation and space technology system that can begin to be transferred to the private sector. This transfer would be in support of U.S. policy to encourage domestic commercial exploitation of space capabilities, technology, and systems for national economic benefit.

In the past 25 years, the United States has maintained a virtual monopoly on space launch services. Recently, however, Europe and Japan have developed space launch activities to the point of challenging the U.S. in the Expendable Launch Vehicle field. Cooperative Government/industry arrangements that include major incentives are the primary reason for the growth of these foreign programs.

Commercial European space launch activities are conducted by Arianespace, a private firm created and subsidized by the European Space Agency, NASA's equivalent. Arianespace does not require customers for its Ariane ELV launches to pay until revenue is generated from the launched satellite's operations. Currently, Arianespace's

attractive financing terms have led American firms such as Western Union and GTE to sign contracts for Ariane ELV launches.

Q. How much could be saved if the Space Shuttle program were funded by private rather than public sources?

A. There are currently two space shuttles in operation, and two additional shuttles are scheduled for construction. PPSS recommendations and savings estimates are based on the construction/operation of a fifth shuttle and all shuttles built after it. Each shuttle costs approximately \$2.3 billion. By funding a fifth shuttle from private sector sources, the Government could acquire increased space transportation capacity without additional cost. PPSS estimates that \$1.5 billion of Federal funds could be replaced by private sector investment over three years.

Q. PPSS also mentioned that weather and remote sensing satellites could be privatized. Is this another PPSS recommendation?

A. Privatizing weather and land sensing satellites has been recommended by many sources, including the General Accounting Office, the National Oceanic and Atmospheric Administration of the Department of Commerce, and PPSS. PPSS recommendations relate primarily to privatizing the land sensing satellite program (LANDSAT).

Q. What is the purpose of the LANDSAT program?

A. The raw data collected from the LANDSAT satellite is used to create maps and charts used in agricultural forecasting, mineral and petroleum exploration, and water and land use planning.

Q. Did PPSS recommend that the satellites be sold to private interests?

A. No. PPSS recommended eliminating Government involvement in any phase of satellite land remote sensing beyond the collection and storage of raw unprocessed data. Specifically, the Government should no longer be involved in converting raw data into computer tapes or other usable forms. PPSS recommended that the Government sell the rights to process, price, and commercially sell this raw data to the private sector.

Q. How much money could this proposal save the Federal Government?

A. As noted above, the Government will save the operating costs of processing and distributing the LANDSAT data -- about \$47 million over three years. In addition, the Government can collect royalties from the sale of this

data. PPSS estimates that Federal revenues could increase by \$450 million over three years by transferring this function to the private sector.

Q. Are there other Federal programs that could be transferred to the private sector?

A. There are many programs in areas that include agricultural marketing and research, National Laboratories, and environmental research and development that can and should be transferred to the private sector.

Q. Could you elaborate?

A. As one example, the Foreign Agricultural Service Cooperator Funding Program funds market development organizations such as the U.S. Wheat Association and the American Soybean Institute to help develop and expand foreign markets for U.S. agricultural products. In 1982, 52 special-interest groups received funding of \$24 million through this program. Contributions from the Federal Government were at one time valid as "seed" money to establish such market organizations, but as these organizations grew in usefulness and membership, funding should have been provided by the members, not the Government.

Q. How much could be saved if the funding for these organizations stopped?

A. We recommend that funding be completely phased out over four years, for savings of \$37 million over the first three years and an additional \$24 million in the fourth year. This is just one example of savings from privatizing Federal activities; there are many more.

Q. What are some of the other areas where privatization should be considered?

A. Other prime candidates for privatization are the National Oceanic and Atmospheric Administration's (NOAA) weather radio station and the research activities of both the National Bureau of Standards (NBS) and the Federal Trade Commission (FTC).

NOAA weather radio duplicates similar data disseminated by regular radio and TV coverage and extensive Coast Guard and Navy transmissions. By discontinuing the NOAA Weather Program, the Government could save \$11 million over three years in transmitter costs, wire service costs, and contracts for radio taping.

The National Bureau of Standards (NBS) and the Federal Trade Commission (FTC) both perform research activities extraneous to their missions and which duplicate research being performed in the private sector. In addition to

developing measurement standards and standard reference materials, the NBS has evolved into a multipurpose research laboratory which addresses technological problems in areas such as chemical engineering, fire research, building technology, and analytical chemistry. The FTC conducts independent analyses of issues concerning the performance of the economy. The research does not contribute to the primary mission of the agencies and in many instances duplicates efforts of the private sector. Limiting the amount of extraneous research could reduce Federal expenditures by \$50 million over three years -- that's equivalent to the taxes paid on 18,776 average tax returns in 1980.

The preceding is just a sampling of programs that could be privatized. Fourteen PPSS task forces have identified areas where privatization should be considered, with potential savings of \$11.2 billion over three years. These PPSS recommendations include:

- o Phase out Veterans Administration construction and management of hospitals. Hospitals should be constructed by private companies and then leased back to VA. VA should then contract with private sector firms for management of these hospitals. In addition, VA should utilize private sector nursing homes rather than construct additional capacity (\$1.436 billion three-year savings);
- o Reduce the Federal vehicle fleet, provide private sector management, and increase the use of privately owned and leased vehicles where cost effective (\$1.460 billion three-year savings);
- o Privatize the National Fertilizer Development Center and eliminate Federal funding (\$84 million three-year savings); and
- o Declare a moratorium on new DOD construction of family housing in the U.S. and suspend housing acquisitions. Rely on Variable Housing Allowances to enable service families to rent suitable housing in adjacent civilian communities (\$209 million three-year savings).

The areas for potential privatization cut across all agencies and functions. As discussed earlier, as a service becomes established, or as a private sector alternative becomes available, Federal resources should be shifted away from these areas. Alternatively, Government services can be performed by the private sector while control remains with the Government through the process of contracting out.

- Q. Several of PPSS's recommendations involve "contracting out." What specifically is involved?
- A. One of the ways the Government can procure goods and services is by contracting with private sector companies to provide them. The Office of Management and Budget (OMB) is responsible for establishing, monitoring, and revising policies, regulations, and procedures for Federal procurement. OMB Circular A-76 defines the policies and procedures to be followed in determining whether a specific commercial activity should be carried out by the Government or contracted out to the private sector. A-76 pertains to commercial and industrial activities currently performed by Government employees, such as food service, maintenance, security, fire fighting, laundry and dry cleaning, etc. It does not apply to major systems acquisitions or inherently governmental functions such as agency administration and management or national defense.

From its inception in 1955, the policy of transferring the Government's commercial activities to the private sector has been poorly implemented. The GAO found in 1978 and again in 1981 that compliance had been "inconsistent and relatively ineffective," with little progress between those years. The Director of OMB noted in 1981 that billions of dollars were being spent annually to perform thousands of activities which the private sector could perform at a cost saving to the Government.

There are an estimated 11,000 commercial activities now being performed in the Government at a cost of about \$20 billion a year. Currently, of the 1.9 million Federal employees in the U.S., excluding Postal employees, more than one in every four is engaged in a commercial activity. In 1983, OMB estimated that adhering to the policies set forth in Circular A-76 could save \$5 billion annually five years after implementation.

PPSS recommended the following actions to carry out these policies and to realize the savings they offer:

- o The Administration should seek to have Congress enact as law the Government's long-standing policy of relying upon the private sector for commercial services.
- o The Administration should seek legislation eliminating the various restrictions Congress has imposed on the Executive Branch's ability to carry out that policy.
- o OMB should amend Circular A-76, revoking the 1979 stipulation that requires at least a 10% cost savings versus the cost of in-house operations before transferring an activity to the private sector.

- o OMB and Executive Branch Agencies should ensure that work performance statements and invitations to bid are not biased against contracting out, and that cost comparisons are fairly and accurately conducted. As part of this process, OMB should promulgate new and accurate Federal personnel costs, especially with respect to retirement, for use in A-76 comparisons.
- o Strong leadership, beginning with the President and extending through OMB to agency heads and officials, should be exerted to enforce the policy and implement the directives.

Each of these areas is discussed in further detail below.

While the Department of Defense (DOD) has led other agencies in implementing the A-76 program, it has been subject to Congressional restrictions and requirements not imposed on civilian agencies. Civilian agencies need no cost studies to contract out when the annual operating costs are under \$100,000, while DOD has no cost study threshold. Congress requires that DOD report activities that are scheduled for contracting out and provide details of cost study results after completion. In addition, DOD is required to present annual reports to Congress on its contracting-out efforts.

The DOD A-76 program suffered a setback when Congress passed a moratorium on A-76 reviews for FY 1978. In 1982, Congress passed a DOD restriction forbidding the use of appropriated funds in connection with any new A-76 study between October 1, 1982, and March 31, 1983. DOD was also forbidden to enter into any new contract for the performance of fire fighting or security guard functions on any military bases or facilities during FY 1982. Beginning with FY 1984, DOD is under a two year moratorium for contracting out fire fighting and security services.

Regarding civilian agencies, Congress prevented the General Services Administration (GSA) from contracting for guards, custodians, elevator operators and messengers during FY 1983, and Congress permanently barred the Veterans Administration from contracting for patient care.

- Q. How has Congress been able to obstruct the Government's goal of relying on the private sector for goods and services?
- A. Part of the problem lies in the fact that Congress has never legislated a national policy supporting reliance on the private sector. The absence of a legislated policy has enabled members of Congress to add riders containing piecemeal legislative restrictions onto appropriation bills.
- Q. Did PPSS note examples where contracting out to the private sector had resulted in cost savings?

A. Yes. Since 1960, the Air Training Command (ATC) has contracted with a predecessor corporation of Northrop Worldwide Aircraft Services, Inc. to provide base support functions for Vance Air Force Base at Enid, Oklahoma. Performance standards in the contract specified what Northrop must accomplish, but not how to do it. The contract has been periodically renewed. The current contract with Northrop, at a fixed cost of \$28.8 million annually, covers most of the base support services required at Vance.

A primary responsibility of Northrop is to perform maintenance on the T-38 and T-37 training aircraft on the base. But also included in the single, umbrella-type contract are such base support functions as civil engineering, recreation services, food services, publications, fire protection, transportation, and housing.

ATC has concluded that the Northrop umbrella contract for base support services saves over \$8 million annually (or about 22%) from the costs of performing the same services using Federal employees. Northrop is able to perform the functions more efficiently and at less cost due to lower manpower requirements, flexible personnel procedures and policies, and a more stable trained work force.

Q. How do services supplied under Northrop compare to those at other military bases which do not rely on the private sector?

A. Northrop performs maintenance on T-38 and T-37 training aircraft using only 60% and 73%, respectively, of the manpower used by the Air Training Command (ATC) system-wide on those planes. Similarly, Northrop performs the supply function at Vance using only half the number of personnel utilized at a comparable ATC airbase where Federal employees perform this function.

Using fewer employees, Northrop performs the maintenance and the supply functions better or more quickly than ATC performs these functions system-wide on the same aircraft. For example, Northrop has only 18.8% of the T-38's and 14.3% of the T-37's sidelined for maintenance, compared to 21.5% and 15.4%, respectively, for ATC system-wide. Similarly, Northrop has only 12.7% of the T-38's and 4.6% of the T-37's not fully mission capable compared to 16.0% and 7.5%, respectively, for ATC system-wide.

Despite such successful contracting out experience, there has been little movement in the Government in this area. Aircraft maintenance, for example, is still being performed in-house at most other airbases, at much higher costs and not as well.



Since Circular A-76 was initially issued in 1966, agencies have been required to identify all commercial positions within their agencies as the first step in applying A-76 procedures. A commercial activity is defined as an activity which provides a product or service which could be obtained from a private sector source.

Currently, the Government has identified 203,000 commercial positions. Of that number, 160,000 are in DOD and the remaining 43,000 in civilian agencies.

Q. Have agencies listed all their commercial positions?

A. No. PPSS concurred in OMB's estimate that there are about 500,000 commercial positions in Government (2.5 times the number of employees currently identified) performing services which could be obtained from the private sector. Agencies have yet to identify about 300,000 of those positions.

Q. Why have agencies not identified all their commercial positions, as directed?

A. Many Federal managers are opposed to contracting out. Some managers of affected activities are concerned with loss of their job security or possible demotion. Others anticipate opposition from members of Congress or employee unions, and the effect that might have on their own positions or responsibilities.

Apart from the general resistance to contracting out, the biggest obstacle is the extensive management review that is required. Currently, it takes 9-12 months, on average, to complete an A-76 study. A-76 studies are also costly. The Norfolk Navy Yard spent \$588,000 during FY 1982, and Fort Polk, Louisiana expects to spend \$2 million over the next two years on A-76 studies.

Since there are limitations on the number of qualified personnel to conduct such reviews, on the funds available, and on the time available for managers to take from their program responsibilities to spend on reviews, it is understandable that the A-76 cost comparisons now required are avoided where possible by Federal managers and even agency heads.

Q. Since A-76 studies are so expensive, can't they be eliminated where cost savings are obvious?

A. They can be, but they aren't. For example, the General Services Administration (GSA) requested a waiver from OMB on cost studies of its in-house custodial activities because extensive experience with contractors pointed to

assured savings by converting to contract. The waiver was withheld because of anticipated Congressional and Civil Service opposition. As a result, GSA estimated it will spend \$1 million on in-house custodial A-76 reviews.

Q. Don't agencies exercise control over A-76 policy implementation?

A. Agencies have not exercised sufficient guidance or control to implement A-76 policy. This is demonstrated by the inconsistencies within agencies. At the Department of Energy (DOE) facilities at Oak Ridge, the guard services are contracted, whereas the DOE Albuquerque facility considers guard services to be "inherently governmental" and not subject to contract. Conversely, Albuquerque contracts for airport services, whereas the Bonneville Power Administration considers such services to be "inherently governmental."

Q. What did PPSS recommend to obtain a complete identification of all commercial positions?

A. Strong leadership is the key. Agency heads must ensure that all commercial positions within agencies are identified. There must be clear guidance as to the type of agency activities which are considered commercial, and proper application of A-76 exceptions and exclusions. Agency officials can expedite the process by identifying the activities which can be procured in ordinary business channels or which have already been successfully contracted, and then impose on managers the burden of demonstrating that contracting out their particular responsibility is not a feasible or viable possibility.

Also, OMB must exercise stronger central oversight and direction to see that agencies are complying with Circular A-76 directives to identify commercial positions.

After identifying the commercial positions within the agency, the next step is for agencies to conduct cost comparisons to determine whether it is more economical to contract out such functions or to perform them in-house.

The 1979 amendments to Circular A-76 introduced a new basis for the comparisons. Contractor bids were no longer to be compared to established in-house costs but to theoretical costs of the most efficient in-house operations.

Further, before any in-house activity could be converted, the contract costs had to be at least 10% below those of the theoretically most efficient in-house operation.

Q. Have agencies performed cost comparisons as directed by Circular A-76?

A. Agencies have been slow to conduct these cost comparisons. Since FY 1979, DOD has performed about 1,300 cost comparisons, involving about 25,000 positions, and contracted for roughly half that number. Based on DOD's current listing of 160,000 commercial positions, the Department has completed cost comparisons involving only 15% of such positions. Based on a more realistic estimate of 400,000 DOD commercial positions, cost comparisons have been performed on only 6% of such positions.

The record of civilian agencies' conducting cost comparisons is even worse. Accurate data on the total number of A-76 studies performed by civilian agencies are not available. OMB has a possibly incomplete record of about 100 cost comparison studies performed by all civilian agencies since FY 1979. Civilian agencies, as a group, have lagged far behind DOD in making A-76 cost comparisons.

Q. Has requiring cost saving comparisons to the theoretically most efficient in-house operations resulted in savings to the Government?

A. No. To develop what would be the theoretically most efficient in-house operation requires an extensive management review. A lengthy OMB Handbook prescribes detailed instructions for completing such studies. Currently, the total elapsed time to complete an A-76 study normally runs from 9 to 12 months.

How efficient or inefficient an in-house operation is does not matter in the current A-76 process. Moreover, Federal managers are not reprimanded if the A-76 process uncovers and documents inefficiencies, regardless of how long the manager has tolerated such waste.

As a result, until the studies are completed, this type of theoretical comparison reduces the stimulus and motivation for Federal managers to make their operations more efficient. If contractor bids were compared against the established costs of Federal operations as they exist, then Federal managers would have an incentive to improve their operations in order to meet the competitive threat from the private sector. That is the competitive stimulus private corporations and managers face every day.

Q. What percent of activities are contracted out following A-76 cost comparisons at the present time?

A. Within DOD, that percentage has dropped in recent years from about 65% in FY 1981 to about 50% in FY 1982, and to 41.5% in FY 1983. The 41.5% of the activities contracted for in FY 1983 accounted for 58% of the positions involved,