LWV Privatization Study: Glossary

Source: United States General Account Office, Report to the Chairman, House Republican Task Force on Privatization, March 1997, *PRIVATIZATION: Lessons Learned by State and Local Governments*

Abbreviations

ABC activity-based costing
CCC (Virginia) Commonwealth Competition Council
CEO chief executive officer
DMB (Michigan) Department of Management and Budget
ESOP employee stock ownership plan
GPRA Government Performance and Results Act of 1993
GSE government-sponsored enterprise
ITMRA Information Technology Reform of 1996
JLARC (Virginia) Joint Legislative Audit Review Commission
NPR National Performance Review
OMB Office of Management and Budget
PBO performance based organization
PERM (Michigan) privatize, eliminate, retain, or modify

GLOSSARY

Asset Sale An asset sale is the transfer of ownership of government assets, commercial type enterprises, or functions to the private sector. In general, the government will have no role in the financial support, management, or oversight of a sold asset. However, if the asset is sold to a company in an industry with monopolistic characteristics, the government may regulate certain aspects of the business, such as the regulation of utility rates.

Competition Competition occurs when two or more parties independently attempt to secure the business of a customer by offering the most favorable terms. Competition in relation to government activities is usually categorized in three ways:
(1) public versus private, in which public-sector organizations compete with the private sector to conduct public-sector business;
(2) public versus public, in which public-sector organizations compete among themselves to conduct public-sector business; and
(3) private versus private, in which private-sector organizations compete among themselves to conduct public-sector business.

Contracting Out Contracting out is the hiring of private-sector firms or nonprofit organizations to provide a good or service for the government. Under this approach, the government remains the financier and has management and policy control over the type and quality of services to be provided. Thus, the government can replace contractors that do not perform well.

Divestiture	Divestiture involves the sale of government-owned assets or commercial-type functions or enterprises. After the divestiture, the government generally has no role concerning financial support, management, regulation, or oversight.
Employee Stock Ownership Plans	Under an employee stock ownership plan (ESOP), employees take over or participate in the management of the organization that employs them by becoming shareholders of stock in that organization. In the public sector, an ESOP can be used in privatizing a service or function. Recently, for example, the Office of Personnel Management established an ESOP for its employees who perform personnel background investigations.
Franchising of Internal Services Franchising-External Service	Under the franchising of internal services, government agencies may provide administrative services to other government agencies on a reimbursable basis. Franchising gives agencies the opportunity to obtain administrative services from another governmental entity instead of providing them for themselves. In the franchise-external service technique, the government grants a concession or privilege to a private-sector entity to conduct business in a particular market or geographical area, such as concession stands, hotels, and other services provided in certain national parks. The government may regulate the service level or price, but users of the service pay the provider directly.
Government Corporations	Government corporations are separate legal entities that are created by Congress; generally with the intent of conducting revenue-producing commercial-type activities and that are generally free from certain government restrictions related to employees and acquisitions.
Government-Sponsored Enterprises	Government-sponsored enterprises (GSE) are privately owned, federally chartered financial institutions with a nationwide scope and limited lending powers that benefit from an implicit federal guarantee that enhances a GSE's ability to borrow money in the private sector. They are not agencies of the United States but serve as a means of accomplishing a public purpose defined by law.
Joint Ventures	See public-private partnership.
Leasing Arrangements	Leasing arrangements are a form of public-private partnership. Under a long-term lease, the government may lease a facility or enterprise to a private-sector entity for a specified period. Maintenance, operation, and payment terms are spelled out in the lease agreement. Under a sale-leaseback arrangement, the government sells an asset to a private-sector entity and then leases it back. Under a sale-service contract or lease-service contract, an asset sale or long-term lease is coupled with an arrangement with the purchaser to furnish services for a specified period. Leases in which the government leases a facility (e.g., a building lease) are considered a form of contracting out, rather than a public-private partnership.

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Managed Competition Under managed competition, a public-sector agency competes with private-sector firms to provide public-sector functions or services under a controlled or managed process. This process clearly defines the steps to be taken by government employees in preparing their own approach to performing an activity. The agency's proposal, which includes a bid proposal for cost-estimate, is useful to compete directly with private-sector bids.

Outsourcing Under outsourcing, a government entity remains fully responsible for the provision of affected services and maintains control over management decisions while another entity operates the function or performs the service. This approach includes contracting out, the granting of franchises to private firms, and the use of volunteers to deliver public services.

Performance Based Organizations Under a performance based organization (PBO), policymaking is to be separated from service operation functions by moving all policymaking responsibilities to a Presidential appointee. The service operations are moved to an organization to be headed by a chief executive officer (CEO), hired on a competitive contract for a fixed term. The CEO's contract defines expected performance and in exchange for being held accountable for achieving performance, the CEO is granted certain flexibilities for human resource management, procurement, and other administrative functions.
As of March 1997, several PBOs had been proposed but no PBO had been authorized in the federal government.

Privatization The term privatization has generally been defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector.

Public-Private Partnership Under a public-private partnership, sometimes referred to as a joint venture, a contractual arrangement is formed between public- and private-sector partners, and can include a variety of activities involving the private sector in the development, financing, ownership, and operation of a public facility or service. It typically includes infrastructure projects and/or facilities. In such a partnership, public and private resources are pooled and their responsibilities divided so that each partner's efforts complement one another. Typically, each partner shares in income resulting from the partnership in direct proportion to the partner's investment. Such a venture, while a contractual arrangement, differs from typical service contracting in that the private-sector partner usually makes a substantial cash, at-risk, equity investment in the project, and the public sector gains access to new revenue or service delivery capacity without having to pay the private-sector partner.

Service Shedding Divestiture through service shedding occurs when the government reduces the level of service provided or stops providing a service altogether. Private-sector businesses or nonprofit organizations may step in to provide the service if there is a market demand.

Subsidies The government can encourage private-sector involvement in accomplishing public purposes through tax subsidies or direct subsidies, such as the funding of low-income housing and research and development tax credits.

User Fees User fees require those who use a government service to pay some or all of the cost of the service rather than having the government pay for it through revenues generated by taxes. Charging entry fees into public parks is an example of a user fee.

Volunteer Activities An activity in which volunteers provide all or part of a service and are organized and directed by a government entity can also be considered a form of outsourcing. Volunteer activities are conducted either through a formal agency volunteer program or through a private nonprofit service organization.

Vouchers Vouchers are government financial subsidies given to individuals for purchasing specific goods or services from the private or public sector. The government gives individuals redeemable certificates or vouchers to purchase the service in the open market. Under this approach, the government relies on the market competition for cost control and individual citizens to seek out quality goods or services. The government's financial obligation to the recipient is limited by the amount of the voucher. A form of vouchers are grants, which can be given to state and local governments that may use the funds to buy services from the private sector.