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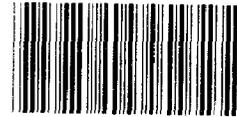
GAO

Report to the Chairman, Subcommittee on  
Seapower and Strategic and Critical  
Materials, Committee on Armed Services,  
House of Representatives

June 1988

# NATIONAL DEFENSE STOCKPILE

## Relocation of Stockpile Materials



136147

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GAO/NSIAD-88-142

542431/136147

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**National Security and  
International Affairs Division**

B-223657

June 15, 1988

The Honorable Charles E. Bennett  
Chairman, Subcommittee on Seapower and  
Strategic and Critical Materials  
Committee on Armed Services  
House of Representatives

Dear Mr. Chairman:

This is in response to your request that we analyze the General Services Administration's (GSA) claim that a \$2.2 million benefit resulted from the sale of a stockpile depot at New Bedford, Mass. GSA's analysis did not include the costs to close and sell a satellite facility at Davisville, R.I. As discussed below and in the appendix, including these expenses results in an estimated net cost to the government of about \$500,000.

You also requested us to provide an opinion on the legality of using the National Defense Stockpile Transaction Fund to finance the relocation of stockpile materials to facilitate GSA's effort to reduce its inventory of warehouse space. Our legal analysis of this matter is currently underway and the results will be provided to you separately.

As a result of the sale of a storage depot at New Bedford, Mass., GSA reported a 5 to 1 cost advantage to the government. This substantially overstates the cost-benefits of this sale. In its calculations GSA did not consider the associated costs of closing an unmanned satellite depot located in nearby Davisville, R.I. The Davisville depot, which was primarily an outdoor storage facility, was managed by the New Bedford staff. According to stockpile officials, the limited work load required at this facility did not justify a permanent staff. In addition, its distance from other manned storage sites made its continued operation as a satellite facility impractical. Therefore, when GSA officials decided to sell the New Bedford facility, stockpile officials determined that the Davisville facility had to be closed and the property sold.

GSA reported that the \$2.8 million revenue from the sale of the New Bedford property, less \$600,000 to relocate the stockpile materials, resulted in net revenues of \$2.2 million. GSA estimated the sales revenue for the Davisville facility at \$800,000 and the costs to relocate the stockpile material at \$3.5 million, for a net cost to the government of about \$2.7 million. Therefore, the overall effect of the sale of the New Bedford property is an estimated net cost of \$500,000.

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Internal GSA documents showed that stockpile managers were concerned about the impact of the sale of New Bedford on the management of the National Defense Stockpile. The managers said that such sales resulted in an undesirable concentration of national security assets and the loss of needed expansion space.

The decision to sell the New Bedford depot cannot be reversed, and the closure of the Davisville facility is almost complete. As of March 7, 1988, all but \$700,000 of the estimated relocation expenses have been incurred. A GSA official estimated that the relocation effort will be completed by July 1988.

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As agreed with your staff, we did not obtain official agency comments on our report. However, we briefed GSA officials on the results of our work, and they concurred with our analysis. The officials stated that the sale of the New Bedford facility was part of a management initiative to reduce the amount of excess GSA-owned warehouse space, and that the sale was believed to be cost-effective at the time the decision was made.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from its issue date. At that time, we will send copies to the Chairmen, Senate Committee on Armed Services, Senate and House Committees on Appropriations, and other interested committees. We will also send copies to the Administrator of the General Services Administration and the Secretary of Defense. We will make copies available to other parties upon request.

Sincerely yours,



Martin M Ferber  
Senior Associate Director



# Sale of New Bedford Storage Depot Not Cost-Effective

At the time of our review, the Office of the National Defense Stockpile in the General Service Administration's (GSA) Federal Property Resources Service was responsible for the storage and maintenance of the National Defense Stockpile. The stockpile currently contains 92 critical and strategic stockpile materials located at 102 storage depots around the country. GSA owns 23 of these depots and leases the remainder from other agencies or private enterprises.<sup>1</sup>

In August 1986, GSA's Public Building Service completed a study that identified ways to reduce the inventory of GSA-owned warehouse space. The study recommended selling 1.9 million square feet of stockpile-occupied warehouse space by September 30, 1987, and identified several warehouses for immediate disposal. One of these was the depot in New Bedford, Mass. The study team did not visit New Bedford, and its report did not discuss the impact of selling the New Bedford depot on an unmanned satellite facility at Davisville, R.I. Although the unmanned site was part of New Bedford's management responsibility, the site was not included in the study because it did not contain a GSA-owned warehouse.

After additional study and discussion within the Federal Property Resources Service, the GSA Administrator approved a recommendation to relocate stockpile material and dispose of several facilities, including the New Bedford and Davisville depots. The New Bedford depot was sold on October 21, 1987, and the Davisville facility is currently in the process of being closed.

## New Bedford and Davisville Depots

The New Bedford facility was located on about 6.4 acres in the industrial section of the city. Its main building was a 7-story warehouse with about 703,000 square feet of space. The building was constructed in 1916, but an appraisal by a real estate consulting firm described the building to be in good condition. As a result of good maintenance, the effective age was estimated to be only 35 years, with a remaining economic life of 40 years. In addition to normal maintenance, GSA spent about \$634,000 during the past 5 years on repairs and improvements, such as a new roof, an emergency generator, and a guard tower. GSA

<sup>1</sup>Subsequent to our review, the President designated the Secretary of Defense as the National Defense Stockpile Manager. Executive Order 12626, dated February 25, 1988, delegated to the Secretary most of the presidential functions described in the Strategic and Critical Materials Stockpiling Act (50 U.S.C. 98, et seq.), as amended. Officials from both agencies stated that the transfer is expected to be completed by the end of fiscal year 1988. The stockpile group and the stockpile material will be transferred as a unit to the Defense Logistics Agency.

used 262,000 square feet of warehouse space to store stockpile materials, including 8,210 long tons of rubber. The remainder of the warehouse was unoccupied.

The Davisville facility contained about 38 acres of outdoor storage space and an 80,000 square foot warehouse. The warehouse was leased from the Department of Defense. According to stockpile officials, this facility required little daily activity other than routine security checks. Because of its close proximity, this could easily be provided by the New Bedford staff. After the sale of the New Bedford facility and the relocation of its staff, stockpile officials believed the Davisville facility was too far removed from the other manned facilities to continue operations as a satellite facility. Additionally, stockpile officials believed the work load was insufficient to justify a permanent staff. Therefore, it was decided to close the Davisville facility and sell the property. To close the facility, GSA had to relocate 96,319 tons of stockpile material (primarily ores and metals) at an estimated cost of \$3.5 million. As of March 7, 1988, about \$2.8 million of the relocation funds were spent. A GSA official estimates the relocation effort will be completed by July 1988.

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## **Sale Not Cost-** **Effective**

GSA recently issued a brochure citing the sale of the New Bedford facility as an example of how to improve asset management by relocating facilities and selling underutilized property. The brochure, describing the benefits of relocation, stated:

“GSA relocated materials at a cost of approximately \$600,000 and sold property at public auction for \$2.8 million. The relocation represents a 5:1 advantage to the Government.”

The stated advantage to the government did not consider all of the costs incurred to close the New Bedford facility. GSA did not include the costs to relocate the stockpile materials from the Davisville facility. Table I.1 shows that, considering the Davisville data, estimated costs will exceed the potential benefits by about \$500,000.

**Table I.1: Summary of Estimated Benefits and Costs of Relocating Stockpile Materials**

Sale of New Bedford	\$2,800,000
Sale of Davisville (GSA estimate)	800,000
<b>Total benefits</b>	<b>\$3,600,000</b>
Relocation of material	
New Bedford	\$597,000
Davisville (GSA estimate)	3,500,000
<b>Total costs</b>	<b>\$4,097,000</b>
Net estimated cost	\$497,000

## Potential Need for Long-Term Storage Facility

A factor cited by GSA's Stockpile Group in its initial opposition to selling the New Bedford depot was its value as a long-term storage facility for rubber. Rubber is one of the most difficult commodities to store because it is subject to spontaneous combustion. As a result, rubber is stored in stacks about 6 feet high. This reduces the risk of fire but also requires a substantial amount of floor space. Also, rubber storage facilities must have equipment to detect and extinguish a fire.

GSA officials responsible for the stockpile stated that the New Bedford facility was ideally suited for the long-term storage of rubber. It was for this purpose that the building was maintained in excellent condition. The building was constructed entirely with reinforced concrete with a high dead load weight for each floor. Each of the 7 floors contained 16 rooms separated by concrete walls. The structure itself would help contain any fire. In addition, modern fire detectors and extinguishers were installed throughout the building. Stockpile managers stated that the fire safety features of this building outweighed the inherent obsolescence of the building's design. For long-term rubber storage, they did not consider such problems as the low ceilings and the inability to install modern material handling equipment to be as important as fire safety.

According to current goals, the stockpile has a shortfall of about 725,000 long tons of rubber, which would require slightly over 7 million square feet of storage space. By the end of fiscal year 1988, stockpile officials stated they will have about 1 million square feet of warehouse space that can be used for the long-term storage of rubber. An acquisition of about 100,000 long tons of rubber would use all of that space. Any further acquisitions would require the lease or purchase of additional space.

Stockpile officials stated that leasing would be the most likely method of acquiring new space. The estimated annual cost to lease adequate space would average nationally about \$2.13 per square foot. Before its sale, the New Bedford depot had about 441,000 square feet of space available for rubber storage. (The rubber that had been stored at New Bedford was transferred to the depot at Somerville, N.J.) Should the need occur, the cost to lease such space would be about \$940,000 a year.

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## Objective, Scope, and Methodology

Our objective was to verify the stated benefits and costs in GSA's closure of the stockpile storage depot at New Bedford, Mass. We performed most of our work at headquarters' offices of GSA in the Washington, D.C., area. We also visited the closed depot at New Bedford, Mass., the satellite depot at Davisville, R.I., and an active depot at Curtis Bay, Md.

To assist our verification of the stated cost-effectiveness of the closure of the New Bedford and Davisville storage facilities, we visited these sites and met with regional management and local depot officials. We inspected the facilities and obtained data concerning storage capabilities, stockpile assets at the depots, and the movement of materials to other locations. We obtained headquarters' officials views on the disposal. We analyzed the cost-benefit study used to justify GSA's depot consolidation effort and examined related records.

We performed our work from October 1987 through February 1988 in accordance with generally accepted government auditing standards.



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