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11-27-70

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

Post Office RELEASED NOV 27 1970

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Dear Mr. Chairman:

As requested in your letter of May 19, 1970, we have examined into the cost of leasing versus the cost of Government ownership of mail-handling trailers in the New York City area.

Our examination showed that the Post Office Department's leasing rates have declined from $7.25 a day in 1966 to $4.40 a day in fiscal year 1971 and that the average daily cost of Government-owned trailers in the year ended April 3, 1970, was $4.32.

Since the cost of Government-owned trailers approximates the cost of leasing in fiscal year 1971, we believe that, at the present time, there would be little or no financial benefit in acquiring additional trailers in the New York City area on a Government-owned basis.

Because the leasing rates appear to fluctuate sharply from time to time and because Government costs also are subject to change, we believe that the Department should restudy these alternatives periodically to determine the most economical method of acquiring mail-handling trailers. Detailed comments on our study are enclosed.

We have not requested the Department to review or to comment formally on the information in this report; however, the Department is being notified of the release date and general subject matter of the report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

We trust that the information furnished will be helpful.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Enclosure

The Honorable Tom Steed
Chairman, Subcommittee on Treasury,
  Post Office, and Executive Office
Committee on Appropriations
House of Representatives

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GENERAL ACCOUNTING OFFICE

COMPARISON OF THE COST OF LEASING OR PURCHASING MAIL-HANDLING TRAILERS NEW YORK CITY AREA POST OFFICE DEPARTMENT

By letter dated May 19, 1970, the Chairman, House Subcommittee on Treasury, Post Office, and Executive Office, Committee on Appropriations, confirmed the agreement between Congressman Joseph P. Addabbo and members of the General Accounting Office requesting that current information be developed concerning the leasing of mail-handling trailers with particular reference to the New York City area. The purpose of the request was to develop data to assist the Committee in determining whether it is in the best interest of the Government to purchase or to lease such trailers.

We compared the Post Office Department's costs of leasing trailers with its cost of maintaining and operating similar Department-owned trailers in the New York City area for the 12-month period ended April 3, 1970. This period was the most recent one for which complete cost information was available at the time we began our review. From the Department's cost of maintaining and operating the owned trailers in the New York City area, we (1) excluded costs arising from accidents since they are not included in the daily lease rates and the Government would bear these costs under either alternative and (2) computed an average daily cost of maintaining and operating a trailer on the basis of its use 346 days a year, as estimated by the Department. 365

LEASED TRAILERS

During the year ended April 3, 1970, the New York Post Office (NYPO) was leasing trailers under nine contracts at daily rates which included maintenance. Lease payments for the year totaled $415,000. Of these payments, $406,000, or 98 percent, was paid to one contractor under six contracts.

We visited the major supplier and learned that it was supplying NYPO with reconditioned trailers leased from an affiliated company. According to information in the contract files, the size of these trailers ranged from 28 to 40 feet. During fiscal year 1970 the supplier furnished trailers of model years ranging from 1960 to 1964; the average trailer was a 1961 model.

The supplier began furnishing trailers to NYPO in 1966 at a rate of $7.25 a day. From that time through October 1968, it furnished the bulk of trailers at this rate. During the remaining portion of fiscal year 1969, it furnished most of the trailers at a rate of $6.50 a day. For fiscal years 1970 and 1971 the daily rates were reduced to $5 and $4.40, respectively. The daily rates are paid only when trailers are actually used by the post office.

COSTS TO GOVERNMENT OF OWNING AND MAINTAINING TRAILERS

As of April 3, 1970, NYPO owned 304 trailers ranging in size from 20 to 39 feet. The model years ranged from 1958 to 1969. Of these trailers, 137 were similar in size to those leased from the major supplier and had been in operation for at least 1 year. For 45 trailers selected at random from the 137 trailers, we computed the Government's ownership and maintenance costs for the year ended April 3, 1970. Our computation showed that the average daily costs of owning and maintaining a Government trailer were as follows:

Material	$ .29
Labor	1.24
Overhead	.82
Equivalent daily acquisition cost	1.97
Estimated cost to the Government	$4.32[a]

[a]Federal income taxes foregone have not been included on the premise that the amount of taxes attributable to the leasing of trailers to the Government would not be significant in view of the supplier's sharp price reduction for fiscal year 1971. To the extent that the supplier would pay taxes on income from trailers leased to the Government in the future, the estimated costs of Government ownership would be increased.

These cost elements are discussed in the following sections.

Material and Labor

The material and labor costs represent materials and labor expended in maintaining the trailers in an operating condition. These costs include replacement and repair of tires, lubrication, scheduled maintenance, and repair parts.

We increased the labor costs to recognize the 6-percent and 8-percent pay increases effective December 27, 1969, and April 19, 1970, respectively.

Overhead

Overhead costs consist of indirect expenses, such as supervision, rent, repairs to shop equipment, and utilities, incurred in the operation of the vehicle maintenance facility. We computed an average overhead rate for the year ended April 3, 1970, in accordance with the Department's accounting procedures which provide for allocating the overhead costs to trailers on the basis of total direct costs of parts, material, and labor.

Equivalent Daily Acquisition Cost

We have included in the estimated daily cost of Government ownership a factor of $1.97 representing the equivalent daily acquisition cost of a trailer. This cost is based on (1) depreciation of the average acquisition cost of a trailer over its estimated useful life of 10 years, (2) estimated salvage value of 5 percent of the acquisition cost, and (3) interest on the investment in a trailer on the basis of the average market yield (6.73%) on long-term marketable Government bonds as of August 28, 1970.

CONCLUSIONS

Since our comparison showed that the cost of maintaining and operating a Government-owned trailer approximates the $4.40 daily cost of leasing a trailer in fiscal year 1971, we believe that, at the present time, there would be little or no financial benefit in acquiring additional trailers in the New York City area on a Government-owned basis. We believe also that, because the leasing rate appears to fluctuate sharply from time to time and because Government costs are also subject to change, the Department should restudy these alternatives periodically.

It should be noted that the factors used in our analyses are not the only factors that may be needed for decision-making. In future analyses where it is determined that, the average daily cost of Government ownership is less than the daily cost of leasing, it would also be necessary to consider the degree of utilization of Government-owned trailers, because certain costs of Government ownership would be incurred even though the trailers were not fully utilized. Leased trailers would not result in cost incurrence unless they were actually used. Therefore, even where a preliminary estimate shows that the daily cost of Government ownership is less than the daily cost of leasing, a trailer fleet composed of both Government-owned trailers and leased trailers could result in the lowest total cost.