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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

JAN 28 1976

B-146779



The Honorable
The Secretary of Defense

Dear Mr. Secretary:

We have reviewed the use of commercial versus Government facilities for storing household goods of military personnel. Our objective was to see if savings could be achieved by using storage space in Government-owned buildings rather than commercial storage. We reviewed nontemporary storage (NTS) and temporary storage, usually referred to as storage in transit (SIT), of international shipments of household goods. We excluded domestic shipments requiring SIT because Interstate Commerce Commission regulations specified that such shipments be stored exclusively in contractor facilities.

We estimate that the Department of Defense (DOD) could save about \$1.3 million annually by using Government-owned, rather than commercial, warehouses in the San Francisco and San Antonio areas. These locations met the major criteria for carrying out a Government household goods storage program. In addition to being less costly, both areas have excess Government warehouse facilities and large concentrations of military personnel in the immediate areas.

A third location we reviewed--Bayonne, New Jersey--had large concentrations of military personnel and excess warehouse facilities, but using such facilities was more costly.

BACKGROUND

The DOD household goods storage program basically includes two types of storage.

--NTS, which is usually provided by a commercial contractor under a basic agreement with the Government and which is used for shipments requiring storage for more than 180 days. NTS generally is used only for household goods to be stored until the owner returns to the area.

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--SIT, which is usually provided by a commercial contractor under a Government bill of lading or contract, involves moving household goods. SIT generally is used at the goods' destination, although it can be used at the point of origin or while the goods are in transit. SIT is routinely authorized for a 90-day period but can be extended to 180 days.

Storage service may be needed as a result of (1) domestic or international movement of household goods, (2) shipping weight limitations, or (3) service members' election to store their household goods in lieu of shipping them, providing storage costs are less than transportation costs.

DOD costs for NTS and SIT for fiscal years 1972, 1973, and 1974 were \$66 million, \$64.6 million, and \$68.4 million, respectively. The cost of storage in Government facilities was not included in these amounts.

GOVERNMENT STORAGE SPACE AVAILABLE

In recent years there have been large reductions in military activities at home and abroad. Such reductions not only have decreased the number of military personnel traveling at home and abroad but also have increased the amount of vacant warehouse space suitable for household goods storage.

In the San Francisco and San Antonio areas, we identified about 1.4 million gross square feet of Government-owned space which was available and suitable for household goods storage, although some of the facilities might require alterations. This space was large enough to store about 112 million pounds of household goods. The location and amount of space at each activity are shown in the following table.

<u>Location</u>	<u>Gross square feet</u>
San Francisco area:	
GSA warehouse, South San Francisco	250,000
Oakland Army Base	700,920
San Antonio area:	
Kelly Air Force Base	<u>404,565</u>
Total	<u>1,355,485</u>

MILLIONS OF POUNDS OF HOUSEHOLD GOODS
IN COMMERCIAL STORAGE

During fiscal year 1974 an average of 32.1 million pounds of household goods were in NTS and SIT in the San Francisco and San Antonio areas. Most of the storage was in commercial facilities.

A breakdown of the average weight in commercial and military storage during fiscal year 1974 follows.

	<u>San Francisco</u>	<u>San Antonio</u>	<u>Total</u>
	----- (pounds) -----		
Commercial NTS	15,883,300	11,640,200	27,523,500
Commercial SIT	1,012,500	393,871	1,406,371
Military storage (Sierra Army De- pot)	<u>3,186,535</u>	<u>(a)</u>	<u>3,186,535</u>
Total	<u>20,082,335</u>	<u>12,034,071</u>	<u>32,116,406</u>

a/Not determined.

SAVINGS BY USING GOVERNMENT
INSTEAD OF COMMERCIAL FACILITIES

We estimate that the cost to maintain an average of 29 million pounds of household goods in commercial storage in the San Francisco and San Antonio areas in fiscal year 1975 was about \$2.5 million. Storing the same quantity of household goods in Government facilities would have cost only about \$1.2 million. The difference--\$1.3 million--represents savings that could have been achieved by making greater use of Government storage facilities.

Enclosure I and the related footnotes describe in detail our comparative cost analysis. The savings we projected for 1975 for the two locations were based on (1) the average amount of household goods remaining in storage during fiscal year 1974, (2) the average local commercial NTS rates in effect at the end of fiscal year 1974, and (3) the latest rates published in the military rate tenders.

In our analysis we considered three of the five major elements of a household goods storage operation--"handling in", storage, and "handling out" (incremental cost). We did

not consider packing and drayage because, for the most part, they would be the same under commercial or Government storage operation.

Bureau of the Budget Circular Number A-76 (Revised) dated August 30, 1967, outlines the basic policies to be applied by executive agencies in determining whether commercial and industrial products and services used by the Government should be provided by private suppliers or the Government directly. The circular provides that to justify a Government-operated activity estimated savings should represent at least 10 percent of contract costs. We estimated that the San Francisco area could have saved 46 percent in storage costs and the San Antonio area could have saved 62 percent.

DOD's storage policy is set forth in Directive 4500.34 IV.B.6, which states that:

- "a. Temporary Storage (Storage in Transit). Qualified 1/ commercial storage facilities will be used by the carrier.
- "b. Non-Temporary Storage. Qualified commercial storage facilities will be used whenever they are available at less cost than available DOD storage facilities."

In our cost analysis, we used Army Regulations 235-5 and Air Force Regulations 26-12, which set forth DOD's household goods storage policy and considered Circular A-76 requirements.

CONCLUSIONS AND RECOMMENDATIONS

DOD can achieve considerable savings by making greater use of Government storage facilities rather than relying on commercial storage in selected areas. Such savings can be achieved with little or no effect on the quality of services provided to DOD service members.

1/Provisions for Government storage of SIT shipments are set forth in the tariffs under which these shipments move.

Carrying out in-house storage programs in areas that prove to be cost effective should not require moving household goods now in contractor warehouses. Rather, the use of commercial contractors would be reduced until Government warehouse resources had been exhausted. This method would cause the least adverse impact on commercial contractors' operations.

We therefore recommend that you direct the Military Traffic Management Command, in cooperation with the military services, to use Government facilities in the San Francisco and San Antonio areas to store household goods. We also recommend that DOD study the economic feasibility of carrying out such programs in other locations where the potential exists. For example, Los Angeles, Seattle, and Norfolk all have large concentrations of military personnel and warehouse facilities.

AGENCY COMMENTS

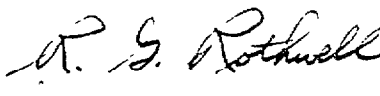
Officials of the Military Traffic Management Command told us that, if our cost information was correct, use of Government-owned storage facilities should be expanded.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen, Senate and House Committees on Government Operations, Appropriations, and Armed Services; and the Secretaries of the Air Force, Army, and Navy.

Sincerely yours,


for F. J. Shafer
Director

Enclosure

COMPARATIVE COST ANALYSIS
GOVERNMENT VERSUS COMMERCIAL STORAGE
OF HOUSEHOLD GOODS (note a)

Cost elements	Total cost	Estimated annual cost FY 1975		
		San Francisco	San Antonio	
Commercial storage operation (note b):				
Contract costs (note c):				
NTS:				
Storage	\$1,746,282	\$ 975,235	\$771,047	
Handling	246,052	158,833	87,219	
	<u>1,992,334</u>	<u>1,134,068</u>	<u>858,266</u>	
SIT:				
Storage	233,568	186,300	47,268	
Handling	181,518	149,850	31,668	
	<u>415,086</u>	<u>336,150</u>	<u>78,936</u>	937,202
Noncontractual costs:				
Other military storage (note d)	91,240	91,240	0	
		91,240	91,240	-
Total (note e)	<u>2,498,660</u>	<u>1,561,458</u>	<u>937,202</u>	
Government storage operation (note f):				
Operating costs:				
Direct expenses:				
Personnel and benefits (note g)	548,485	358,352	190,133	
Equipment rental	9,036	9,036	0	
Space occupancy costs (note h)	214,779	189,010	25,769	
Additional drayage (note i)	-	-	-	
	<u>772,300</u>	<u>556,398</u>	<u>215,902</u>	
Indirect expenses:				
Depreciation (note j)	152,995	71,849	81,146	
Interest (note k)	91,519	50,438	41,081	
Self-insured liability (note l)	2,317	1,669	648	
Other indirect (note m)	15,446	11,128	4,381	
Space renovation cost (note n)	66,092	66,092	-	
	<u>328,369</u>	<u>201,176</u>	<u>127,193</u>	343,095
Nonoperating costs:				
Lost tax revenue (note o)	44,056	26,905	17,151	
Opportunity costs (note p)	57,217	57,217	-	17,151
Total (note q)	<u>1,201,942</u>	<u>841,696</u>	<u>360,246</u>	
Estimated annual savings, Government storage (note r)	<u>\$1,296,718</u>	<u>\$ 719,762</u>	<u>\$576,956</u>	

NOTE: The footnotes on the following pages are an integral part of this enclosure.

Notes to cost analysis

- a/This cost analysis compares only the incremental costs, estimated for fiscal year 1975, of following either of two alternatives for storage and warehouse handling of DOD household goods. Since costs of other items incidental to shipment and handling of household goods will be similarly incurred regardless of which storage alternative is selected, they are considered to be "wash items" and have been excluded from the analysis. These wash items are the costs of packing and unpacking household goods at residences and drayage to storage facilities. Under the operating concept of the Government storage alternative, packing, unpacking, and drayage of household goods will be performed by commercial contractors. Commercial contractors are currently performing this service. Thus, there is no change in these costs under either alternative.
- b/The commercial storage operation is the alternative followed presently. Under this alternative, reliance is placed primarily on commercial contractors or carriers for handling and storage of DOD household goods, although some storage does occur in Government facilities. Where a change in use of these facilities would involve a corresponding change in incremental cost, the cost has been included in the analysis.
- c/Contract costs were projected on the average quantity of household goods remaining in NTS and SIT during fiscal year 1974, multiplied by the respective average NTS and SIT rates in effect during the first quarter of fiscal year 1975 for each location. NTS rates for each location are an average of the rates charged by local NTS contractors who collectively stored at least 75 percent of the locality's NTS quantity during fiscal year 1974. SIT rates for each location are those which have been published in applicable Government rate tenders. All storage and handling costs were annualized and include appropriate adjustments for an average 2-1/2 years NTS turnover period, and an average 45 days SIT turnover period.
- d/This item represents the cost of warehouse handling and non-temporary household goods storage at Sierra Army Depot; Hurlong, California, and transportation charges from Oakland, California. It represents cost under the current operating method which will no longer be incurred if household goods storage is performed at Oakland Army Base in the San Francisco, California, area. This was the only location reviewed where household goods were trans-shipped to another location for Government storage.

e/No cost was included for MTMC's commercial contract administration. We were told that even though some basic agreement contracts would be eliminated if household goods storage was performed in Government facilities, other basic agreement contractors outside of the Government storage service area would still have to be monitored. Thus, there would be no significant reduction in contract administration.

f/Government costs are based on a concept of operation that entails the following features:

--containerized and mechanized storage operation,

--civil service staffing for warehousing operations administrative services, and

--continued reliance on contractors for packing and unpacking of household goods at residences and drayage to storage facilities.

g/Personnel requirements were estimated by knowledgeable MTMC officials at each location, and costed out at prevailing local rates.

h/Space requirements were computed for each location based upon standard warehouse occupancy rates and a weight density factor of six pounds per cubic foot for containerized household goods. The required space at each location was costed at the respective space rates. The space rate includes various cost of maintenance, minor repairs, utilities, security and administrative expenses. It also includes an accrual for major maintenance costs identified at Oakland Army Base.

i/This item represents the incremental cost of draying household goods to the Government storage facility from beyond the limits of the local commercial zone, as defined by the Code of Federal Regulations, Title 49, part 1048. For the two locations analyzed this was not a factor, but could be one in other areas.

j/Capital outlays for assets or capital improvements have not been included at their full acquisition cost. Only the annual depreciation expense was considered. The depreciation item here represents the purchase cost of containers, material handling equipment, and construction of racks and bins, depreciated over their useful lifetime (10 years) according to guidelines specified in the regulations.

k/Interest is computed in accordance with AR 235-5 on the full capital requirements for acquisition of containers and

equipment at the rate of 7.02 percent. This is the interest rate on long-term Treasury obligations at the end of fiscal year 1974.

- l/Self-insured liability, computed at 0.3 percent of direct operating costs according to AR 235-5, includes the costs resulting from losses caused by fire and other hazards, settlement of loss and damage claims and other uninsured claims and losses. The cost of claims settlement for lost or damaged household goods although an important cost item, is insignificant because the Government essentially pays the full cost of this item under either alternative. For instance, under the commercial alternative, contractors are liable for up to \$50 per inventory item at the rate of 15¢ or 30¢ per pound on international household goods shipments, or 60¢ per pound on domestic NTS. Any loss or damage claim above this limitation, up to \$15,000 in total, is paid directly by the Government. However, contractors are also required by the Government to carry liability insurance to cover loss or damage claims. The premium charged by the insurance carrier is an operating cost to the contractor which he includes in his rates, which in turn is passed on to the customer--in this case, the Government. Under the Government storage alternative, the only incremental cost of claims settlement would be an amount equal to that which is recovered from contractors by DOD members or the Government against claims resulting exclusively from loss or damage due to warehouse handling or storage of household goods. Because actual determination of this amount would have entailed very extensive auditing work, we therefore accepted the incremental factor for self-insured liability prescribed by AR 235-5.
- m/Other indirect costs consist of various central administrative services above the installation level. These are computed at 2.0 percent of direct operating costs in accordance with the requirements of AR 235-5.
- n/The cost of warehouse space renovation work was included at its annual amortized value (5 years) if the work was necessary before the space could be used for household goods storage.
- o/This cost represents the reduction in Federal tax revenue received from commercial contractors if household goods storage is diverted into Government-owned facilities. It is computed at 1.83 percent of contract costs in accordance with the regulations. Although we are aware that there would be some loss of state and local taxes, such costs were not included in this study.

p/Opportunity cost represents the potential revenue foregone as a result of using available Government-owned facilities for household goods storage, rather than putting them to an alternative use. This cost was included only if there was an obvious and immediate alternative use for the Government facilities. For the San Francisco, California, area, however, this item was taken as the potential revenue from a proposed lease of vacant warehouse space to the Navy. This proposal was being actively negotiated in March 1975. In our analysis, potential lease revenue was reduced by an amount equivalent to the depreciated value of warehouse renovation work. This was done because realization of the lease opportunity is also contingent upon renovating the vacant space.

q/We did not include interest cost on the funds necessary for renovation of Government facilities in the San Francisco, California, area. Interest was excluded because funds have already been accrued in a reserve account for capital improvements. This industrial fund account had a surplus of \$1.8 million at the beginning of fiscal year 1975. These funds would be subject to interest cost only if the major maintenance projects (capital improvements) for which they were accrued could be permanently deferred. Such would be the case if the warehouse facilities in need of major maintenance work were disposed of by the Government. In our opinion, this does not appear to be feasible in view of warehouse space demands made by various Federal agencies. It, therefore, seems to us to be a very tentative position upon which to justify inclusion of additional interest on funds for renovation work.

r/Estimated savings should represent at least 10 percent of contract costs in order to justify a Government operated activity. As indicated below, the estimated savings in the San Francisco area and the San Antonio area surpass this guideline significantly.

<u>Location</u>	<u>Percent of savings</u>
San Francisco	46.1
San Antonio	61.6

GENERAL: Because of the magnitude of personnel costs involved in this comparison, life-cycle costing was not considered necessary.