Potential Savings By Using U.S.- Made Vehicles In Lieu Of Hiring Foreign-Made Vehicles In Europe B-163869

Department of Defense

Department of the Army

Department of the Air Force

UNITED STATES
GENERAL ACCOUNTING OFFICE

APRIL 8, 1974

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

INTERNATIONAL DIVISION

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B-163869

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

This report highlights the results of our followup review on the budgetary and balance-of-payments advantages of replacing many of the military's leased and chartered foreign-made vehicles in Europe with U.S. owned and operated vehicles.

On the basis of selected tests, we estimated that the Army and Air Force could make significant savings at certain locations. A more comprehensive study would likely disclose more opportunities for budgetary and balance-of-payments savings. We also found that the services had not translated their continuing transportation requirements into requests to the Congress for funds to purchase vehicles but were using other appropriated funds to pay for foreign vehicle lease and charter costs.

We concluded that the military services need to consider cost and balance of payments when filling longer term, administrative-type vehicle requirements. We are recommending, therefore, that you insure that (1) the military services prepare detailed cost analyses of overseas lease and charter decisions and (2) congressional budget requests identify the funds needed to procure U.S.-made vehicles required abroad.

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

We appreciate the cooperation and assistance given our representatives during this review. We would like to be advised of your views on this matter as well as any actions taken or contemplated.

Sincerely yours,

J. K. Fasick

J. K. Fasick
Director

Contents

ABBREVIATIONS

DM deutsche mark

GAO General Accounting Office

USAFE U.S. Air Forces in Europe

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY
OF DEFENSE

POTENTIAL SAVINGS BY USING U.S.-MADE VEHICLES IN LIEU OF HIRING FOREIGN-MADE VEHICLES IN EUROPE

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D I G E S T

WHY THE REVIEW WAS MADE

This followup review to a 1970 GAO report was made to determine whether it is more advantageous, from budgetary and balance-of-payments viewpoints, to replace leased and chartered foreign-made vehicles in Europe with U.S. owned and operated vehicles.

FINDINGS AND CONCLUSIONS

In February 1970 GAO issued a report on the "Cost and Balance-of-Payments Advantages of Replacing Foreign-Made Buses with American-Made Buses Abroad."

GAO said the armed services could reduce overall budgetary costs by as much as $500,000 and could realize a balance-of-payments advantage of about $3.1 million. This could be done by replacing leased foreign-made buses with American-made buses at certain locations in the Pacific and European theaters.

Nearly all of those potential savings were to be realized in the Pacific theater. Since then, however, inflation, two devaluations of the dollar, and increasing numbers of leased and chartered vehicles have increased costs considerably in Europe.

The number of leased or chartered vehicles in Europe and their contract costs have increased considerably since 1969. In December 1972 the Army and Air Force leased about 722 foreign vehicles for periods ranging from 7 to 12 months at a total cost of about $3.1 million. In addition, these services were paying about $2 million a year for chartered buses.

On the basis of tests of certain lease and charter arrangements, GAO estimated the Army and the Air Force could save about $906,000 a year. They could also reduce the balance-of-payments drain by about $1.5 million by buying and operating U.S.-made vehicles instead of hiring foreign-made vehicles.

The Air Force and the Army in Europe had not been allotted procurement funds to purchase U.S.-made, administrative-type vehicles in 1973, nor had they requested such funds from the Congress.

Instead, in satisfying vehicle requirements, the services obtained funds from operations and maintenance, military construction, and permanent-change-of-station appropriations to lease and charter foreign vehicles.

Because of continuing balance-of-payments problems confronting the Federal Government, the military services should give particular attention to obtaining cost and balance-of-payments advantages when filling longer term, administrative-type vehicle requirements.

GAO recommended in the 1970 report that the military services develop better local operating and maintenance cost data and prepare more timely and accurate cost studies for evaluating the comparative costs of leasing foreign-made buses as opposed to buying American-made buses. Based on our current study this need continues and should be reemphasized.

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of Defense should insure that:

--Each military service makes detailed cost and balance-of-payments analyses of the feasibility of replacing leased and chartered foreign-made vehicles abroad with U.S.-made vehicles.

--Detailed cost and balance-of-payments analyses are an integral part of future lease and charter decisions.

--Congressional budget requests specifically identify funds needed to procure U.S.-made vehicles required overseas.

AGENCY ACTIONS AND UNRESOLVED ISSUES

Army and Air Force officials agreed with the thrust of GAO's review and recommendations. They reported taking recent actions which were consistent with the GAO recommendations.

CHAPTER 1

INTRODUCTION

In February 1970 GAO issued a report on "Costs and Balance-of-Payments Advantages of Replacing Foreign-Made Buses with American-Made Buses Abroad" (B-163869). Because of continuing concern over U.S. balance-of-payments deficits and Federal expenditures, we made a followup review.[1]

PRIOR REVIEW

In our prior review we analyzed the cost advantages to the military services of replacing leased foreign-made buses with U.S.-made buses in both the Pacific and European theaters. On the basis of contract costs for leasing foreign-made buses for noncombat purposes in calendar year 1968, we concluded that the armed services could reduce overall budgetary costs by as much as $500,000 and realize a balance-of-payments advantage of about $3.1 million by using U.S.-made buses at some locations where transportation was provided by leased foreign-made buses. Nearly all of those potential savings, however, were to be realized in the Pacific theater.

ECONOMIC CHANGES IN EUROPE

Since completion of our work on the prior report, the devaluation of the dollar and rising prices have had an impact on costs of military operations in Europe. We therefore were concerned whether these economic changes had altered the cost effectiveness of leasing or chartering foreign-made vehicles.

In West Germany, where most European-based U.S. military personnel are located, the exchange rate for deutsche marks (DMs) dropped from $1:DM4 to about $1:DM2.83[2]

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[1]The material in this report reflects information available through March 1973. Since then, the West German deutsche mark has been revalued by 5.5 percent.

[2]This was the official "floor price" at which the Federal Republic of Germany's Central Bank would, in March 1973, support the price of the dollar. However, in May 1973 the dollar was "floating" in Germany and the exchange rate had dropped as low as $1:DM2.73.

between October 1969 and March 1973. A buyer now must pay about 41 percent more dollars than he did in 1969 for the same DMs to acquire goods or services. Over the last 4 years, U.S. Forces have contended with an inflation rate of about 6 to 7 percent each year in West Germany.

The dollar has also declined in value in relation to other European currencies, although generally not as drastically as in relation to West Germany's DMs. Price levels have increased in all the European countries where U.S. forces are stationed, and the rates of increase have exceeded the rate of inflation in the United States. The following table shows the cumulative increases in price levels for selected West European countries and the United States between 1968 and 1972.

	Increase (percent)
The Netherlands	26.9
Germany	22.4
Great Britain	21.7
Italy	18.7
Belgium	15.6
United States	15.1

CURRENT REVIEW

This review considers the current effect on the Federal budget of hiring foreign-made vehicles, hereinafter referred to as foreign vehicles, in Europe instead of using U.S.-made vehicles, hereinafter referred to as U.S. vehicles. We also studied how replacing foreign vehicles with U.S. vehicles would affect the U.S. balance-of-payments position.

We analyzed the cost of using foreign versus U.S. vehicles under:

1. Major vehicle-lease contracts let by the Army Procurement Agency, Europe.

2. All major vehicle-lease contracts outstanding at the Air Force Directorate of Procurement, Furope.

Potential savings apply only to the specific situations being studied.

We did not evaluate the management or efficiency of hired transportation services. Neither did we examine the need for transportation services provided by foreign vehicles in Europe.

As noted in our prior report, the Congress was concerned about leasing foreign vehicles and in September 1968 added section 404 to the Department of Defense Appropriation Authorization Act (Public Law 90-500, Sept. 20, 1968) for fiscal year 1969. This legislation still prohibits using appropriated funds to purchase, lease, rent, or otherwise acquire multipassenger motor vehicles other than those made in the United States, except when authorized by the Secretary of Defense.

The Army in Europe uses "nonavailability"[1] of U.S. vehicles and the Air Force in Europe uses "nonavailability"[2] of U.S. vehicles and "temporary need" for foreign vehicles to justify exceptions to the general rule prohibiting the use of appropriated funds to lease foreign vehicles. Directives provide that the services make comparative cost and balance-of-payments studies in deciding whether to lease foreign vehicles or to buy American vehicles.

In our 1970 report, we noted that cost studies to evaluate the economic feasibility of substituting American-made vehicles for foreign-made vehicles leased abroad had not been based, in many cases, on current and accurate comparative cost data. This situation continued to prevail during our current review. In addition, not all leases entered into by the services were supported by cost studies.

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[1]Armed Services Procurement Regulation, section 6-805.2(a)(v).

[2]Ibid, section 6-805.2(a)(viii)(A)(9) and section 6-306(i) and (ii).

In December 1972 the Army and the Air Force had 25 outstanding lease agreements to use 722 foreign vehicles at a total cost of about $3.1 million. The leases were for periods ranging from 7 to 12 months. The following table summarizes the costs by type of vehicle.

	Army		Air Force		Total	
	Cost	Number	Cost	Number	Cost	Number
Minibus	$610,356	218	-	-	$ 610,356	218
Small sedan	133,962	66	-	-	133,962	66
School bus	33,583	6	$2,221,805	412	2,255,388	418
Work shuttle bus	-	-	83,117	20	83,117	20
	$777,901	290	$2,304,922	432	$3,082,823	722

The Army and Air Force are also paying about $2 million a year for chartered buses. These chartered buses follow regular routes that could be served by U.S. buses.

CHAPTER 2

SAVINGS FROM BUYING U.S. VEHICLES INSTEAD OF LEASING OR CHARTERING FOREIGN VEHICLES

We estimate that the Army and the Air Force in Europe could save about $906,000[1] a year by buying and operating U.S. vehicles instead of hiring foreign vehicles to perform certain services. Replacing some hired foreign vehicles with U.S. vehicles would also reduce the balance-of-payments drain by about $1.5 million. The estimates for U.S. vehicles were based on such major factors as vehicle acquisition costs depreciated over a 6- to 10-year period, salaries, and charter costs prevailing at the time of our review in early 1973. We based our estimates for foreign vehicles on selected leases and charters in Europe. A more comprehensive study would probably disclose more opportunities for budgetary and balance-of-payments savings.

The Army leases some vehicles because of a shortage of authorized sedans, carryalls, and buses. Both the Army and the Air Force lease and charter vehicles to meet continuing requirements which have not been translated into requests for authorized vehicles.

The Army and the Air Force pay for leases and charters from funds appropriated for the dependents school system, military operations and maintenance, permanent changes of station, and military construction in Europe.

In some situations buying and operating U.S. vehicles in Europe would not produce either a budgetary or a balance-of-payments advantage for the United States. Those cases in

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[1]Using the "equivalent uniform annual cost method," which considers the time value of money, the annual savings would be reduced to about $818,000, or $88,000 less. The calculations included an allowance for residual value estimated at 20 percent of the vehicles' acquisition cost and used a 7-percent interest rate, which approximated the average market yield on long-term Treasury obligations in 1973.

which our analyses showed potential savings, however, are summarized below and are described in the following sections.

Category	Number of vehicles	Cost to hire	Cost to own (note a)	Potential savings	
				Budgetary	Balance of payments
Air Force lease	135	$ 861,682	$ 793,855	$ 67,827	$ 346,525
Army lease	271	703,978	234,519	469,459	654,778
Bus charter	22	823,700	455,251	368,449	460,552
Total (see app. I.)	428	$2,389,360	$1,483,625	$905,735	$1,461,855

[a]Acquisition, shipping, and handling costs of U.S. vehicles were amortized over the standard vehicle life, the amortized costs were then added to annual operating and maintenance costs, including salaries of local national drivers.

We also identified other cases in which the Air Force could obtain small balance-of-payments advantages of $34,369 if it used U.S. buses instead of leased foreign buses. (See app. II.)

FACTORS USED IN ESTIMATING COSTS TO BUY AND OPERATE U.S. VEHICLES

We used the following factors in estimating the costs to replace leased and chartered foreign vehicles with U.S. vehicles.

Acquisition cost

	Purchase price	Transportation to Europe and handling	Total	Estimated life (years)
Bus:				
45-passenger	$10,397	$2,728	$13,125	10
29-passenger	6,651	2,226	8,877	8
Sedan	1,924	660	2,584	6
Carryall	3,040	777	3,817	6

Because transporting students to and from school is of high priority, we recognized a 12-percent maintenance float in determining the number of U.S. buses needed to replace the current number of leased school buses.

Operation and maintenance costs

	Cost per mile
Bus:	
45-passenger	$0.20
29-passenger	0.11
Sedan	[a].02
Carryall	[a].03

[a]Maintenance only.

We obtained the costs for buses from Air Force operation and maintenance reports for the 6 months ended December 31, 1972. Costs for sedans and carryalls, based on Army experience during fiscal year 1972, covered only maintenance because the Army contracted for only the vehicle and therefore had to pay for drivers, gas, and oil. To compute the balance-of-payments effect, we accepted an Air Force official's opinion that about 65 percent of the total maintenance costs had been paid in foreign currencies.

Drivers' salaries

We used drivers' annual salaries which the Air Force and the Army furnished to us. These salaries were considered appropriate for up to 260 workdays each year.

We made two assumptions regarding school bus drivers: (1) they were not otherwise productively employed, therefore their entire annual salaries were included in the costs for operating U.S. buses and (2) part-time military and dependent drivers could not be used in Europe.

However, the Air Force did use military personnel to drive U.S. school buses when local national drivers were not available. Therefore, rather than including an additional drivers' salary for each bus on the basis of the 12-percent maintenance float criterion, we computed the total annual salaries on the basis of the number of U.S. school buses needed daily by the Air Force.

ANALYZING COSTS OF AIR FORCE LEASES

Early in 1973, the Air Force had the following outstanding leases for bus services in Europe.

Country	Number of leases	Number of buses	Cost of leases	Lease cost per bus
England	8	223	$1,047,128	$4,695
Spain	2	92	499,643	5,430
Germany	4	45	270,288	6,006
Holland	1	18	111,676	6,204
Italy	1	22	200,870	9,130
Turkey	1	20	83,117	4,155
Norway	1	8	62,200	7,775
Denmark	1	4	30,000	7,500
	19	432	$2,304,922	$5,335 (average)

Of the Air Force leases, 18 were for school buses and 1 (in Turkey) was for work shuttle buses for local national employees. Procuring comparable U.S. buses is not authorized at any of the Air Force bases which administer these leases.

The Air Force also owns and operates U.S. buses for transporting dependent students to and from schools at six locations in West Germany (Wiesbaden, Rhein Main, Sembach, Bitburg, Spangdahlem, and Hahn). Although the Air Force does not make annual comparative cost analyses at the six locations, officials say U.S. bus operations at these locations are cheaper than lease operations.

The Air Force's cost to lease a bus has increased by $2,064, almost 65 percent, since our prior report. The cost has increased consistently each year.

Year	Number of buses	Average cost per bus	Cumulative increase
1969	428	$3,271	$ -
1971	401	4,227	956
1972	431	4,514	1,243
1973	432	5,335	2,064

Buses are needed continually. Our cost analysis showed that most foreign buses could be leased at less cost than would be required to purchase and operate U.S. buses. We did find, however, that three Air Force bases could realize

budgetary and balance-of-payment advantages if they replaced foreign buses with U.S. buses.

Base	Cost to Contract	Cost to Own	Potential savings Budgetary	Potential savings Balance of payments
West Ruislip, United Kingdom	$226,812	$221,051	$ 5,761	$ 76,226
Aviano, Italy	200,870	144,100	56,770	107,458
Torrejon, Spain	434,000	428,704	5,296	162,841
Total	$861,682	$793,855	$67,827	$346,525

Although estimated costs to buy and operate U.S. buses are higher than current costs to lease foreign buses at 16 other locations, we estimate that small balance-of-payments savings, about $34,369 a year, could be realized at three of these locations. Costs to buy and operate U.S. buses at these locations would exceed costs to lease foreign buses by about $78,975 a year.

Appendix II contains the cost analysis for each of the 19 Air Force lease contract locations.

ANALYZING COSTS OF ARMY LEASES

The Army had 3 leases for 271 vehicles late in 1972. (See app. I.)

Use	Vehicle	Quantity	Term (months)	Cost
Combat arms support	Minibuses	150	11	$470,189
Housing referral offices	Minibuses	55	7	99,827
Construction engineers	Sedans	66	12	133,962
		271		$703,978

We did not review 2 leases for 13 minibuses costing $40,340 or 1 lease in Italy for 6 school buses costing $33,583.

Minibuses for combat arms support

The 150 minibuses were leased for administrative purposes for selected combat troop units in West Germany and Italy. The Army paid the lease costs from operations and maintenance appropriations allocated for developing an all-volunteer Army.

The average cost to lease one minibus, excluding gas, oil, and drivers' salaries, was about $3,130 per year or, in fact, more per year than was the fleet price for a U.S. carryall ($3,040) available for Department of Defense acquisition.

Substantial annual savings--about 70 percent of the lease costs--could have been realized if the authorized U.S. carryalls had been purchased.

Lease cost for minibuses	$470,189
Estimated cost of operating U.S. carryalls	143,346
Potential budgetary savings	$326,843
Potential balance-of-payments savings	$439,024

Officials of the Army in Europe agreed that leasing Volkswagon minibuses was more expensive than owning and operating U.S. carryalls. However, they pointed out that leases were necessary because the Army in Europe was allocated less than 32 percent of the carryalls it required in fiscal year 1973.

The lease contract costs were in DMs (we converted DMs to dollars at the rate of DM 3.18:$1, and actual dollar costs will increase as the dollar continues to decline in value.

Minibuses for housing referral offices

The 1972 lease for 55 Volkswagon minibuses was to provide the Army's housing referral offices in Germany with

authorized vehicles for 7 months. These offices had also used the 55 leased minibuses in 1971. The average annual lease cost for each vehicle was approximately the same as for those minibuses leased for the combat troop units.

Our analysis showed that, even for 7 months, a large saving--54 percent of the lease cost--would have been realized if U.S. carryalls had been available at the beginning of the fiscal year.

Lease cost of minibuses	$99,827
Cost of operating U.S. carryalls	46,033
Potential budgetary savings	$53,794
Potential balance-of-payments savings	$92,643

The 55 minibuses, leased because of the carryall shortage in Europe, were financed from operation and maintenance appropriations allocated to the Modern Professional Army program in Europe. We understand that, when the 7-month lease ended, the Army in Europe received U.S. carryalls to replace the leased vehicles.

Sedans for construction engineers

Another Army lease we reviewed was for 66 Volkswagon and Opel sedans for construction engineers at the various sites in Germany and the Benelux countries. The current lease is the third in 3 years and the fourth in the last 5 years. The current annual cost of $2,030 to lease each foreign sedan exceeds the unit cost of $1,924 for a comparable U.S. sedan. The following table shows the increase in the unit lease cost and the increase in the number of sedans leased by the Army in Europe from 1969 to 1973.

Lease year	Term (months)	Number of vehicles	Lease cost	Cost per vehicle
1969	7	27	$ 26,800	$ 993
1971	11	47	82,800	1,762
1972	12	36	73,108	2,031
1973	12	66	133,962	2,030

Unlike the leased minibuses, 30 of the leased sedans were not authorized by documentation and therefore were excluded from being replaced with U.S. sedans. In April 1973 a responsible Army official advised us that action had been taken to translate needs for leased vehicles into requirements for authorized vehicles.

Of the 36 other sedans, 27 had been leased continuously since May 1969. Although U.S. sedans were authorized, the Army allocated only 50 percent of its fiscal year 1973 sedan requirements in Europe. This shortage necessitated another lease.

If the 66 leased sedans had been replaced with U.S. sedans at the beginning of fiscal year 1973, about 66 percent of the lease costs could have been saved.

Lease cost of foreign sedans	$133,962
Cost of operating U.S. sedans	45,140
Potential budgetary savings	$ 88,822
Potential balance-of-payments savings	$123,111

The leased sedans were financed from military construction funds allocated to the Army Engineer Command in Europe. The lease costs of these sedans will also increase as the dollar continues to be devalued in Europe.

ANALYZING COSTS OF SELECTED CHARTERED BUSES

About $2 million was spent in fiscal year 1972 for chartering buses in Europe. We selected some major uses of these buses and compared the estimated charter costs with the estimated costs to own and operate U.S. buses required to satisfy the U.S. Forces' needs.

Use	Number of buses	Charter costs	Potential savings	
			Budgetary	Balance of payments
Permanent-change-of-station moves from continental United States	8	[a]$309,530	$142,568	$171,658
Permanent-change-of-station shuttle buses	5	[b]208,960	78,448	115,194
Work shuttle buses	4	[b]198,375	121,007	132,902
Armed Forces recreation area tour buses	5	[a]106,835	26,426	40,798
Total	22	$823,700	$368,449	$460,552

[a]Based on a 2-month analysis.

[b]Estimated for fiscal year 1973.

Of these 22 chartered buses, 21 operated in West Germany and 1 operated in Italy.

Although the requirements being met by foreign buses were predictable and continual (daily service in most cases), none of the above $823,700 needed for chartering vehicles appeared on procurement authorization documents. Therefore, these buses could not be replaced with U.S. buses.

Payments to foreign carriers, as records kept by the Army in Europe show, have increased fivefold during the past 2 years.

Year	Payments	Increase	
		Annual	Cumulative
1970	$ 204,034	$ -	$ -
1971	720,610	516,576	516,576
1972	1,258,522	537,912	1,054,488

Each type of chartered bus service is discussed below.

Permanent-change-of-station moves from continental United States

Chartered buses are used primarily for moving military personnel and their dependents from the Military Airlift Command Terminal at Rhein Main Airport, Frankfurt, Germany, to new duty stations in West Germany. We analyzed passenger moves in August 1971 and in February 1972 from Frankfurt to 13 major destinations. (See app. III.) In this analysis,

we included rail movements, as well as bus charters, from Frankfurt and the Rhein Main Airport.

Trains and chartered buses moved about 170 passengers a day from the Frankfurt Rhein Main transportation offices to the 13 destinations. At least one bus made trips almost daily to each location. On the premise that eight 29-passenger U.S. buses could move these passengers to the 13 destinations, we estimated that $23,762 could have been saved during those 2 months and the balance-of-payments drain could have been reduced by $28,611. We estimated that, if these 2 months were representative of a year's traffic, annual savings on the 13 routes could have been realized as shown in the following table.

Charter bus-rail cost	$309,530
Cost of operating U.S. buses	166,962
Annual budgetary savings	$142,568
Annual balance-of-payments	$171,658

Our analysis of traffic to the 13 locations included only 20 percent of the 50,187 passengers moved from the Rhein Main Airport to points in Germany during the 2 test months. Consequently, we believe savings would be substantially greater than estimated if the Army purchased and operated a fleet of buses in the Frankfurt area to transport permanent-change-of-station personnel.

U.S. buses were not used because no requirement for such transportation was reported on Army vehicle authorization documents. Charters were financed from Army open allotment personnel appropriations.

The need for permanent-change-of-station transport is continual, and vehicles should be included in European command-level authorization documents. Such action was taken, for example, in the case of personnel transported from the Rhein Main Airport to the Army processing center and to duty stations in Frankfurt. One local carrier had been used exclusively for this purpose until July 1972, when the processing center became dissatisfied with the service. The center requested U.S. buses for this purpose and received

them; it estimated that it would save over $80,000 annually. The Army in Europe has asked the Department of the Army to place U.S. buses on the vehicle authorization document for the processing center.

Other buses for permanent changes of station

We analyzed the daily charter of five buses to move military personnel and their dependents from their duty stations to five air terminals[1] in fiscal year 1972. Except for one bus from Vicenza to Milan, Italy, the buses were chartered into the Rhein Main Airport. The four buses that we reviewed in Germany were chartered from the same bus company in previous years. These charters were financed through the open allotment system and paid for from the military personnel appropriation.

Our estimates show that using U.S. buses, rather than the five chartered buses, would have resulted in the following savings during fiscal year 1972.

Costs of chartering foreign buses	$208,960
Cost of operating U.S. buses	130,512
Potential budgetary savings	$ 78,448
Potential balance-of-payment savings	$115,194

These five chartered buses do not appear on any authorization documents and therefore cannot be replaced by U.S. buses.

Work shuttle buses

The Army charters 4 buses for 13 trips each day between Augsburg, Germany, and a nearby military installation. The service, which began in December 1971, has increased in cost

[1]At Vicenza (Army) Italy, and at Kaiserslautern (Army), Baumholder (Army), Bitburg (Air Force), and Ramstein (Air Force), Germany.

almost every month. On the basis of average costs in the first 4 months of fiscal year 1973, we estimate that the total annual cost will be nearly $200,000, not considering the effect of the February 1973 devaluation of the dollar. This cost averages $50,000 a year for each bus.

The latest available price for U.S. 45-passenger buses, plus ocean transportation and European port handling costs, was $13,125.

We estimated that replacing the four chartered foreign buses with U.S. owned and operated buses during the fiscal year 1973 would have generated the following savings.

Estimated cost of chartering buses	$198,375
Estimated cost of operating U.S. buses	77,368
Estimated budgetary savings	$121,007
Estimated balance-of-payments savings	$132,902

The requirement for the four buses was not on vehicle authorization documents. The charters were financed from funds appropriated for operation and maintenance and allocated to the Army Security Agency.

Armed Forces recreation area tours

The Army in Europe charters buses from two German bus firms to transport military personnel to the three Armed Forces recreation areas in the Bavarian section of West Germany. A Frankfurt firm averages nearly 21 monthly trips, and a Wuerzburg firm averages 22 monthly trips. The Army paid nearly $172,000 to these two firms during fiscal year 1972--$106,835 to the Frankfurt firm and $65,000 to the Wuerzburg firm. Other foreign buses were chartered for this purpose from the Deutsche Bundesbahn (German railroad).

Using August and February of fiscal year 1972 as test months, we conclude that two 45-passenger U.S. buses and three 29-passenger buses could adequately meet part of the requirement from the Frankfurt area. If the charter costs and traffic volume during our selected test months were typical, potential annual savings for the Frankfurt area

requirements would be as follows.

Cost of chartering buses	$106,835
Estimated costs of operating U.S. buses	80,409
Annual budgetary savings	$ 26,426
Annual balance-of-payments savings	$ 40,798

If one 45-passenger U.S. bus had been used in the Wuerzburg area, we estimate that additional U.S. costs would have been incurred; however, the balance-of-payments drain could have decreased by about $4,356 during our 2 test months.

The Armed Forces' recreation bus requirement is predictable and continual but is not recorded on Army and Air Force vehicle authorization documents. Thus, procurement of U.S. buses has not been requested. The funds used to finance the charter of German buses are from the appropriated operation and maintenance funds allocated to the Armed Forces' recreation centers in Germany.

CHAPTER 3

CONCLUSIONS, RECOMMENDATIONS, AND AGENCY ACTIONS

CONCLUSIONS

The number of leased or chartered vehicles in Europe and their contract costs have increased considerably since 1969. We have found that it is more advantageous, from both budgetary and balance-of-payments viewpoints, to replace many of the hired foreign vehicles in Europe with U.S. owned and operated vehicles.

We recognize that the Air Force and the Army in Europe were not allotted the total procurement funds to fill all requirements for administrative-type vehicles in 1973 with U.S. vehicles. Therefore, the services in Europe hired foreign vehicles.

The Air Force and the Army, however, did not request the Congress to appropriate all the 1973 procurement funds needed to satisfy requirements for administrative-type vehicles. Instead, they requested funds for contract services from operations and maintenance, military construction, and permanent-change-of-station appropriations. These funds were used to lease and charter foreign vehicles and, therefore, supplement available procurement funds.

The unavailability of procurement funds and the resulting inability to purchase U.S. vehicles has, in fact, resulted in a more expensive method being used to provide transportation services.

In our 1970 report we recommended to the Secretary of Defense that the military services develop better local operating and maintenance cost data and prepare more timely and accurate cost studies. This need which continues should be reemphasized.

The Army and the Air Force in Europe should redetermine their total requirements for administrative-type vehicles and ascertain the potential economic advantage to the U.S. Government of replacing hired foreign vehicles in Europe with U.S. vehicles. In view of our analysis of selected

situations, we believe that funds could be saved by replacing many hired foreign vehicles to fulfill requirements for administrative-type vehicles in Europe.

In view of both budgetary and balance-of-payments problems confronting the U.S. Government, the military services should give particular attention to filling their continuing administrative-type vehicle needs in ways most economically advantageous to the Government.

RECOMMENDATIONS

We recommend that the Secretary of Defense insure that:

--Each military service makes detailed cost and balance-of-payments analyses of the feasibility of replacing leased and chartered foreign-made vehicles abroad with U.S.-made vehicles.

--Detailed cost and balance-of-payments analyses are an integral part of future leased charter decisions.

--Congressional budget requests specifically identify the funds needed to procure U.S.-made vehicles required overseas.

AGENCY ACTIONS

Army officials agreed with our recommendations and told us that Army's policy prohibits the leasing of foreign vehicles, except for durations of less than 90 days or for absolute emergencies. They informed us that most of the leased buses noted in our review had been or were being replaced with Army-owned vehicles and that in certain instances consideration was being given to reducing or eliminating transportation or providing alternative means of service. Washington officials stated that, within the continental United States, the Army was locating vehicles which could be economically and feasibly rehabilitated for shipment to Europe.

Air Force officials agreed with our recommendations. They stated that their directives already require cost analyses prior to leasing or chartering vehicles for 90 days

or more and that procedures now exist for including priority needs for vehicles in annual budget presentations to the Congress.

The officials, however, were not in agreement with all of our computations because changes in acquisition costs, wages (based on varying exchange rates), vehicle requirements, and operation and maintenance costs were inherent in different periods used. The need to use the best and most current cost data is essential in making any cost analysis, and the results can vary depending on the factors, period, and method used.

The major consideration is that the cost studies are made and that, if budgetary and balance-of-payments benefits are determined, U.S. equipment should be used. Air Force headquarters officials informed us that strong attention was being given to the preparation of comparative costs analyses.

These Army and Air Force actions are in close agreement with the thrust of our review and recommendations.

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TOTAL COMPARATIVE COST ANALYSIS

Type of hire	Requirement: Vehicles: Size (note a)	Requirement: Vehicles: Quantity	Requirement: Days of operation	Requirement: Miles per day	Estimated costs of U.S. operation: Vehicle: Unit	Estimated costs of U.S. operation: Vehicle: Total	Estimated costs of U.S. operation: Operation-maintenance: Per mile	Estimated costs of U.S. operation: Operation-maintenance: Total	Estimated costs of U.S. operation: Local driver costs	Estimated costs of U.S. operation: Total
	(1)	(2)	(3)	(4)	(5)	(6) (2x5)	(7)	(8) (3x4x7)	(9)	(10) (6+8+9)
Charters (buses):										
Airport shuttle service:										
Vicenza	45	1	312	360	$1,313	$ 1,313	$0.20	$ 22,464	$ 5,763	$ 29,540
Kaiserslautern	45	1	365	272	1,313	1,313	.20	19,856	8,289	29,458
Baumholder	45	1	312	203	1,313	1,313	.20	12,667	7,086	21,066
Bitburg	45	1	365	288	1,313	1,313	.20	21,024	8,289	30,626
Ramstein	45	1	365	140	1,313	1,313	.20	10,220	8,289	19,822
Total		5		1,263		6,565		86,231	37,716	130,512
Augsburg work shuttle bus	45	4	365	260	1,313	5,252	.20	18,980	53,136	77,368
Armed Forces recreation center tour buses	45	2	189	320	1,313	2,626	.20	12,096		
	29	3	213	510	1,110	3,330	.11	11,949	50,408	80,409
Rhein Main to permanent-change-of-station duty station	29	8	260	-	1,110	8,880	.11	[b]57,762	[c]100,320	166,962
Total		17		3,110		20,088		100,787	203,864	324,739
Total		22		4,373		$ 26,653		$187,018	$241,580	$ 455,251
Army leases:										
Carryalls for combat arms support	7 to 9	150	334	4,950	636	$ 95,400	.029	$ 47,946	$ -	$ 143,346
Carryalls for housing referral offices	7 to 9	55	210	1,815	636	34,980	.029	11,053	-	46,033
Sedans for construction engineers	4 to 5	66	365	2,178	431	28,446	.021	16,694	-	45,140
Total		271		8,943		$158,826		$ 75,693	$ -	$ 234,519
Air Force leases:										
Air Force school buses	45	[d]135	179	6,419	1,313	$198,263	.20	$229,811	$365,781	$ 793,855
	29	-	179	-	1,110	-	.11	-	-	-
Total		[d]135		6,419		$198,263		$229,811	$365,781	$ 793,855
Total comparative costs for items involving both budgetary and balance-of-payments savings		428				$383,742		$492,532	$607,361	$1,483,625

[a] Number of passengers.

[b] Taken from app. III.

[c] Includes salaries of drivers, plus estimated costs of rail movements and chartered buses. (See app. III.)

[d] Our analysis showed that 151 U.S. buses will be required to replace the 135 foreign leased buses. Therefore, the "estimated costs of U.S. operations" are based on 151 45-passenger buses.

[e] Using the "equivalent uniform annual cost method," which considers the time value of money, the annual savings would be reduced to about $818,000, or $88,000 less. The calculations included an allowance for residual value estimated at 20 percent of the vehicles' acquisition cost and used a 7-percent interest rate, which approximated the average market yield on long-term Treasury obligations in 1973.

Cost of foreign operation	Potential budgetary savings	Estimated balance-of-payments savings: 65 percent of operation-maintenance costs	Local driver salaries	Total recurring foreign costs	Present foreign costs	Savings
(11)	(12)	(13)	(14)	(15)	(16)	(17)
	(11-10)			(13+14)		(16-15)
$ 29,081	$ -459	$ 14,602	$ 5,763	$ 20,365	$ 29,081	$ 8,716
51,940	22,482	12,906	8,289	21,195	51,940	30,745
32,715	11,649	8,234	7,086	15,320	32,715	17,395
55,283	24,657	13,665	8,289	21,954	55,283	33,329
39,941	20,119	6,643	8,289	14,932	39,941	25,009
208,960	78,448	56,050	37,716	93,766	208,960	115,194
198,375	121,007	12,337	53,136	65,473	198,375	132,902
106,835	26,426	15,629	50,408	66,037	106,835	40,798
309,530	142,568	37,552	100,320	137,872	309,530	171,658
614,740	290,001	65,518	203,864	269,382	614,740	345,358
$ 823,700	$368,449	$121,568	$241,580	$363,148	$ 823,700	$ 460,552
$ 470,189	$326,843	$ 31,165	$ -	$ 31,165	$ 470,189	$ 439,024
99,827	53,794	7,184	-	7,184	99,827	92,643
133,962	88,822	10,851	-	10,851	133,962	123,111
$ 703,978	$469,459	$ 49,200	$ -	$ 49,200	$ 703,978	$ 654,778
$ 861,682	$ 67,827	$149,376	$365,781	$515,157	$ 861,682	$ 346,525
-	-	-	-	-	-	-
$ 861,682	$ 67,827	$149,376	$365,781	$515,157	$ 861,682	$ 346,525
$2,389,360	[e]$905,735	$320,144	$607,361	$927,505	$2,389,360	$1,461,855

COMPARATIVE ANALYSIS--USAFE (note a)

Location	USAFE requirements: Buses: Size (note b) (1)	Number running daily (note c) (2)	Plus 12 percent float (3)	Miles per year (4)	Students moved (note d) (5)	Estimated annual cost of U.S. bus operation: Vehicle: Unit (6)	Vehicle: Total (7)	Operation maintenance: Per mile (8)	Operation maintenance: Total (9) (8+4)
West Ruislip, United Kingdom	45	32	36	[e]331,379	1,423	$1,313	$ 47,268	$0.20	$ 66,276
Aviano, Italy	45	24	27	217,664	1,062	1,313	35,451	.20	43,533
Torrejon, Spain	45	79	88	600,008	3,555	1,313	115,544	.20	120,002
Total (applicable to both budgetary and balance-of-payments savings)		135	151	1,149,051	6,040		198,263		229,811
Zweibrucken, Germany	45	16	18	126,016	707	1,313	23,634	.20	25,203
Alconbury, United Kingdom	45	26	29	335,983	1,168	1,313	38,077	.20	67,197
Zaragoza, Spain	45	6	7	12,530	270	1,313	9,191	.20	2,506
Zaragoza	29	7	8	8,950	203	1,110	8,880	.11	985
Total (applicable to balance-of-payments savings only)		55	62	483,479	2,348		79,782		95,891
Upper Heyford, United Kingdom	29	80	90	509,613	2,316	1,110	99,900	.11	56,057
Lakenheath, United Kingdom	45	56	63	436,223	2,501	1,313	82,719	.20	87,245
Wethersfield, United Kingdom	45	1	1	19,511	[h]36	1,313	1,313	.20	3,902
Bentwaters, United Kingdom	45	32	36	325,064	1,440	1,313	47,268	.20	65,013
Bentwaters	29	10	11	52,805	290	1,110	12,210	.11	5,809
Chicksands, United Kingdom	45	7	8	140,157	297	1,313	10,504	.20	28,031
Greenham Common, United Kingdom	45	5	6	46,540	216	1,313	7,878	.20	9,308
Oslo, Norway	45	8	9	95,944	360	1,313	11,817	.20	19,189
Copenhagen, Denmark	29	4	4	31,683	108	1,110	4,440	.11	3,485
Ramstein, Germany	45	35	39	94,512	1,575	1,313	51,207	.20	18,902
Hof, Germany	29	3	3	20,048	77	1,110	3,330	.11	2,205
Rothwesten, Germany	45	3	3	10,740	130	1,313	3,939	.20	2,148
Soesterberg, Holland	45	12	13	173,272	532	1,313	17,069	.20	34.654
Soesterberg	29	3	3	52,089	88	1,110	3,330	.11	5,730
Incirlik, Turkey	45	[i]22	25	421,940	1,000	1,313	32,825	.20	84,388
Total (applicable to no identified savings)		281	314	2,430,141	10,966		389,749		426,066
Total		471	527	4,062,671	19,354		$667,794		$751,768

[a]U.S. Air Forces in Europe.

[b]Number of passengers.

[c]Required each day to move number of students cited in column 5.

[d]Capacity of foreign buses cited in column 12.

[e]An estimate--West Ruislip Air Force Base was nearly shut down after USAFE determined the mileage requirement. We related the 32 buses needed to the original requirement and arrived at a mileage estimate.

Estimated annual cost of U.S. bus operation					Foreign costs of U.S. buses			
Drivers salaries (10)	Total U.S. operation (11) (7+9+10)	Quantity of foreign buses hired (12)	Total estimated annual cost of hired buses (13)	Potential budgetary savings (14) (11-13)	65 percent of operation maintenance costs (15)	Drivers salaries (16)	Total (17) (15+16)	Potential balance-of-payments savings (18) (17-13)
[f]$107,507	$ 221,051	34	$ 226,812	$ 5,761	$ 43,079	[f]$107,507	$ 150,586	$ 76,226
[g]65,116	144,100	22	200,870	56,770	28,296	[g]65,116	93,412	107,458
193,158	428,704	79	434,000	5,296	78,001	193,158	271,159	162,841
365,781	793,855	135	861,682	67,827	149,376	$ 365,781	515,157	346,525
126,443	175,280	13	143,915	-31,365	16,382	126,443	142,825	1,090
90,480	195,754	25	149,500	-46,254	43,678	90,480	134,158	15,342
45,437	66,999	13	65,643	-1,356	2,269	45,437	47,706	17,937
262,360	438,033	51	359,058	-78,976	62,329	262,360	324,689	34,369
243,613	399,570	48	248,900	-150,670	36,437	243,613	280,050	-31,150
184,816	354,780	61	173,271	181,509	56,709	184,816	241,525	-68,254
3,104	8,319	1	5,333	-2,986	2,536	3,104	5,640	-307
170,000	300,300	42	187,000	-113,300	46,034	170,000	261,034	-29,034
26,935	65,470	7	35,512	-29,958	18,220	26,935	45,155	-9,643
17,680	34,866	5	20,800	-14,066	6,050	17,680	23,730	-2,930
53,537	84,543	8	62,200	-22,343	12,473	53,537	66,010	-3,810
28,800	36,725	4	30,000	-6,725	2,265	28,800	31,065	-1,065
292,479	362,588	26	94,560	-268,028	12,286	292,479	304,765	-210,205
17,057	22,592	3	15,813	-6,779	1,433	17,057	18,490	-2,677
22,789	28,876	3	16,000	-12,876	1,396	22,789	24,185	-8,185
118,321	179,104	18	111,676	-67,428	26,250	118,321	144,571	-32,895
70,200	187,413	20	83,117	-104,296	54,852	70,200	125,052	-41,935
1,249,331	2,065,146	246	1,084,182	-980,964	276,941	1,249,331	1,526,272	-442,090
$1,877,472	$3,297,034	432	$2,304,922	-$992,112	$488,646	$1,877,472	$2,366,118	-$ 61,196

[f]Includes drivers' supervisors' salaries. We assumed that approximately 1 supervisor was needed for every 30 drivers.

[g]USAFE said that hiring local national drivers was a problem; local personnel told us that, as of May 21, 1973, only eight local nationals were driving leased buses. We therefore computed local national drivers' salaries on the basis of eight current local national drivers plus two drivers for additional U.S. buses required to replace the leased buses.

[h]On Tuesday through Thursday, about 18 students ride the bus each day.

[i]Work shuttle buses.

SELECTED PERMANENT CHANGE-OF-STATION MOVES

FROM FRANKFURT RHEIN MAIN

FISCAL YEAR 1972

Destination	August			February			Total			Annual estimate	
	Passengers			Passengers			Passengers				
	Total	Average	Cost	Total	Average	Cost	Total	Average	Cost	Passengers	Cost
Ansbach	145	4.7	$ 1,006	1,339	46.2	$ 6,906	1,484	24.7	$ 7,912	8,904	$ 47,472
Augsburg	448	14.5	4,736	549	18.9	6,081	997	16.6	10,817	5,982	64,902
Bad Kreuznach	200	6.5	524	809	27.9	2,754	1,009	16.8	3,278	6,054	19,668
Fulda	209	6.7	807	251	8.7	863	460	7.7	1,670	2,760	10,020
Hanau	270	8.7	254	274	9.5	273	544	9.0	527	3,264	3,162
Heidelberg	360	11.6	1,181	477	16.5	1,861	837	14.0	3,042	5,022	18,252
Kaiserslautern	199	6.4	981	368	12.7	1,161	567	9.5	2,142	3,402	12,852
Karlsruhe	93	3.0	560	261	9.0	1,342	352	5.9	1,902	2,124	11,412
Mannheim	499	16.2	1,572	488	16.8	1,605	987	16.5	3,177	5,922	19,062
Pirmasens	165	5.3	608	243	8.4	1,114	408	6.8	1,722	2,448	10,332
Stuttgart	461	14.9	3,729	609	21.0	4,776	1,070	17.8	8,505	6,420	51.030
Worms	83	2.7	268	237	8.2	804	320	5.3	1,072	1,920	6,432
Wuerzburg	586	18.9	2,748	566	19.5	3,072	1,152	19.2	5,820	6,912	34,920
Total (foreign)	3,718	119.9	18,976	6,471	223.1	32,613	10,189	169.8	51,589	61,134	309,534
Using eight 29-passenger U.S. buses:											
Bus amortization			740			740			1,480		8,880
Drivers salaries			3,936			3,936			7,872		47,232
Operations-maintenance			4,235			5,392			9,627		57,762
Rail movements			1,452			3,832			5,284		31,704
Charters (additional)			-			3,564			3,564		21,384
Total (United States)			10,363			17,464			27,827		166,962
Budgetary advantage of U.S. buses			$ 8,613			$15,149			$23,762		[a]$142,572

[a]Does not agree with total in appendix I due to rounding of total charter costs.

Note: Estimated balance-of-payments savings for the 2 test months is $28,611.

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