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Report to Congressional Requestors

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HOUSEHOLD GOODS

DOD's Program for Obtaining Moving Rates

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Congressional Requestors

The Military Traffic Management Command (MTMC) manages the movement of the household goods of military and civilian personnel of the Department of Defense (DOD) when these personnel are transferred from one duty location to another. MTMC relies on commercial household goods carriers for most of this movement of household goods.

In September 1983, MTMC announced it was modifying its Interstate Rate Acquisition Program, the program for obtaining rates from carriers for moving household goods. The modified program became effective May 1, 1984. MTMC modified the program because the economic and regulatory environment in which the household goods carrier industry operates has changed dramatically in the last several years and DOD, like any other shipper, believed it should protect itself against unreasonably high rates and undesirable terms and conditions. The other reasons are discussed in appendix I. The major change required individual carriers to submit rates directly to MTMC. Previously, MTMC used tariffs published by industry associations or rate bureaus on behalf of individual carriers.

Responding to complaints from household goods bureaus and carriers, 33 members of the Congress asked us to review the new program to determine its impact on the moving industry, the federal government, and the quality of service to military members. We did not identify any adverse impact during the short time the program has been in effect.

As part of our effort to determine the program's impact on industry, we sent letters to the 15 industry members that had complained to various congressional members about MTMC's program. We informed the industry members that we were evaluating the new program and requested their views regarding its impact on their businesses. Moreover, we asked that if they were experiencing an adverse impact, they provide documentation to help us identify specific examples. We requested that they respond by April 26, 1985. As of January 31, 1986, we had received only four written responses. None provided any evidence that the program had adversely affected their businesses. Also, most of the respondents indicated they were no longer concerned with the new program.

The primary concern expressed by industry members and bureaus was that MTMC's changes would cause carrier revenues to decrease and possibly even force some carriers out of business. We did not find any instances where carriers had gone out of business due to the program. A comparison of carrier revenue for 1983 and 1984 DOD traffic showed that the revenue of the majority of the carriers had increased.

One industry bureau was also concerned that MTMC's new program would result in higher costs to the government. The bureau believed the additional carrier paperwork resulting from the new MTMC rate-filing requirements would increase costs significantly. It also stated that now that the rate bureaus were not going to set the rates and publish the tariffs, MTMC would have to bear the costs of printing and distributing the tariffs.

MTMC officials agreed that the new program had increased paperwork and that there were additional costs for printing and distributing the tariffs. They could not estimate these costs but stated that no additional staff were needed. Furthermore, MTMC has a new automated rate-filing system which is expected to reduce overall costs.

Industry was also concerned that MTMC's new program would result in intense competition among the carriers and that carriers, if forced to reduce costs, would reduce service quality, resulting in more claims being filed by the service members. Such claims are filed by military and civilian employees when personal property is lost or damaged as a result of DOD-sponsored moves. Although a part of the cost of claims is paid by the carriers, the major portion is paid by the government.

The cost of claims increased from $65 million in fiscal year 1981 to about $74 million in fiscal year 1984, and the number of claims increased from about 129,000 in fiscal year 1981 to about 133,000 in fiscal year 1984. But a comparison of the 6-month rate cycle beginning May 1, 1984, and ending October 31, 1984, with the same cycle in 1983 showed that the number of claims decreased by 959 and the cost increased by $1.2 million. Neither of these changes appears significant. However, it could be several years before complete claims data is compiled. Therefore, it may be too early to determine the extent to which the program will affect claims.

There is no evidence at this early stage that the new program has adversely affected the moving industry or the federal government. It is too early to determine if the changes made will affect the quality of service to DOD personnel. However, no significant increase in the number or total value of claims submitted has occurred to date. The most recent data, though incomplete, shows that the number and cost of claims for fiscal year 1985 decreased when compared to fiscal year 1984. The results of our work are described in greater detail in appendix I.

We asked DOD and four carrier associations/bureaus to comment on a draft of this report. DOD concurred in our conclusions. Only two of the four carrier groups responded. The American Movers Conference stated that many of its previous objections had been overtaken by events. It did voice concerns about claims and the economic health of the moving industry. The Household Goods Carriers' Bureau comments focused primarily on clarification of program changes and DOD's rationale for them. It too cited claims and the economic condition of carriers as problems. The major points raised by the two carrier groups and our evaluation are included on pages 19 and 20 of appendix I. DOD and the carrier groups' comments are included in their entirety as appendixes II through IV.

During our work on DOD's rate solicitation program, several members of the Congress expressed an interest in the Air Force's Total Cost Transportation Program. Although this is not related to the rate issue, we did develop information on this program. It is included as appendix V.

Copies of this report are being sent to all interested members of the Congress; to the Secretaries of Defense, the Air Force, the Army, and the Navy; and to the Director, Office of Management and Budget.

Frank C Conahan

Frank C. Conahan
Director

List of Requestors

The Honorable James Abdnor
The Honorable Robert C. Byrd
The Honorable Alan Cranston
The Honorable John C. Danforth
The Honorable J. James Exon
The Honorable John H. Glenn John H. Glenn
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The Honorable Charles Rose
The Honorable Toby Roth
The Honorable J. Roy Rowland
The Honorable Alan Wheat
The Honorable William Whitehurst
House of Representatives

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Abbreviations

AMC	American Movers Conference
DOD	Department of Defense
GAO	General Accounting Office
ICC	Interstate Commerce Commission
MTMC	Military Traffic Management Command
PLRD	Procurement, Logistics, and Readiness Division
TCT	Total Cost Transportation
TOPS	Transportation Operational Personal Property Standard System

MTMC's Interstate Rate Acquisition Program

Background

The Department of Defense (DOD) is the nation's largest single shipper of personal property with 779,000 shipments moved in fiscal year 1984 at a cost of $861 million. Interstate moves accounted for 209,000 of these shipments at a cost of $358 million.

The Military Traffic Management Command (MTMC) is the single manager for DOD's personal property program. MTMC manages household goods shipments worldwide for the military and civilian personnel of DOD when they move from one duty location to another. DOD relies on commercial carriers for most of this transportation.

Two recent laws that affected the movement of personal property were the Motor Carrier Act of 1980 and the Household Goods Transportation Act of 1980.

The Motor Carrier Act of 1980 established a policy of promoting competition within the trucking industry and increased the ability of independent carriers to offer price and service options applicable to shippers' needs. Under deregulation, carriers offer a variety of price and service options (volume discounts, guaranteed on-time pickup and delivery, full value protection against lost or damaged goods, etc.). Shippers can define the terms and conditions of the services they seek and tender their business to carriers offering favorable rate and service options.

The Household Goods Transportation Act of 1980 set forth congressional policy on the household goods moving industry. The emphasis of the act was threefold—reducing unnecessary regulation, strengthening consumer remedies and protections, and establishing maximum carrier flexibility in pricing services and meeting shippers' needs.

Changes in Procedures for Establishing Rates

In September 1983, MTMC announced changes to its rate acquisition procedures governing the interstate shipment of DOD's household goods. The changes became effective May 1, 1984. Principal among these changes was MTMC's plan to discontinue using rates which industry rate bureaus filed on behalf of individual carriers.

Prior to May 1, 1984, the rates that a carrier charged DOD for moving household goods were submitted in two ways. First, most carriers belong to an organization known as a tariff or rate bureau. The major ones are the Household Goods Carriers' Bureau (1,700 members) and the Movers' and Warehouseman's Association (400 members). The bureaus were permitted to file rates for their member carriers under section 10706 of the

Interstate Commerce Act. The carriers relied on these bureaus to submit the rates they would apply when billing DOD. The rates submitted by the bureaus were in the form of publications, or rate schedules, known as rate tenders, which contained uniform provisions, line haul rates, accessorial charges, rules, and regulations for shipping household goods. These tenders were approved by the Interstate Commerce Commission (ICC).

Second, in accordance with section 10721 of the Interstate Commerce Act, during each 6-month rate cycle, each carrier had the option to file a reduced or discount rate with MTMC. These discounts were not solicited by MTMC but were submitted voluntarily by the carriers. The discounts were submitted as a percentage of the rates in the tenders. Once a discount rate had been filed and accepted, all other carriers were notified and given the opportunity to match the discount rates. The period in which carriers had an opportunity to match the discount rates was known as the rate equalization period.

Effective May 1, 1984, MTMC began the process under which carriers had to file their rates directly with MTMC using MTMC-established baseline rates as the basis for their rate submissions. For example, a carrier could specify that it would charge 75 percent of MTMC's baseline. There is no maximum or minimum limit on the percentage a carrier can file. MTMC's current baseline rates are the same rates that were in effect for the rate cycle that began May 1, 1984.

According to MTMC officials, the impact on the individual carriers was expected to be minor. The following are some of the reasons MTMC believed the changes would have minor impact on individual carriers.

- The basic rules and rates under the new program are the same as under the prior program.
- The two 6-month rate cycles and the two filing periods are the same.
- The carriers could still file rates as percentages which are above, below, or equal to the baseline rates.

The most significant changes are (1) the carriers now must submit their own rates to MTMC instead of relying on the rate bureaus and (2) MTMC will now establish the baseline rates.

Rationale for Changes in Procedures

DOD stated that it had implemented the new rate acquisition program because the economic and regulatory environment in which the household goods carrier industry operates has changed dramatically in the last several years and DOD, like any other shipper, believed it should protect itself against unreasonably high rates and undesirable terms and conditions. DOD regulations require that MTMC establish procedures to achieve economy and efficiency in the program's operation and obtain competitive rates. MTMC's interstate rate solicitation program seeks to do this through reliance on independent carrier pricing and DOD-specific rules of service.

Prior to developing modifications to the interstate rate acquisition program, MTMC considered many factors, including

- price and service options,
- the increasing incidence of discount rate submissions, and
- the pattern of line haul rate increases.

Price and Service Options

The goals of the Household Goods Transportation Act of 1980 are to (1) reduce unnecessary regulations, (2) strengthen consumer remedies and protection by making carriers responsible for the actions of their agents, and (3) establish carrier flexibility in the pricing of service and meeting shippers' needs. This act has resulted in various forms of discounts and diverse service plans now offered by the carriers. Shippers have more flexibility to define the terms and conditions of the services they seek and to use the carriers offering the most favorable rates and services.

Increasing Number of Discount Rate Submissions

The number of rates submitted by carriers to DOD increased significantly between 1980 and 1983. Between and including the summer cycles of 1980 and 1983, for example, the number of discount rate submissions received increased from 9,955 to 95,002. Discounts of 20 to 50 percent below the rate bureau's baseline level were common. According to DOD, the increased number and size of the discounts indicated, along with the rate increases discussed below, that the rates submitted by the rate bureaus were excessive.

To further support its view that carriers were becoming more competitive, MTMC noted that 371 of DOD-approved interstate carriers waived a November 1, 1983, 10-percent line haul increase when MTMC asked for carrier waivers. The line haul rate is based on the weight of the shipment and the number of miles from origin to destination. According to

DOD, these 371 carriers represented about 56 percent of DOD's 657 approved interstate carriers and they hauled 88 percent of DOD's total shipment tonnage in fiscal year 1982.

Pattern of Line Haul Rate Increases

The line haul rates submitted by rate bureaus over several recent years had reflected substantial increases. DOD, in testimony before the ICC, viewed this pattern as indicative of "excessive and unreasonably high" rates resulting from an "environment of collective ratemaking without regulatory restraint." According to DOD, the line haul rate levels submitted by the Household Goods Carriers' Bureau increased 84.7 percent between January 1979 and June 1983. DOD felt the increases sought by industry and approved by ICC were excessive because the increases secured by industry outpaced both the producer and consumer price indexes for the same period. These price indexes are generally accepted measures of inflation. In commenting on this report, industry representatives questioned the validity of DOD's computation of rate increases.

Controversy Regarding the Future of Rate Bureaus

The Motor Carrier Act of 1980 created controversy over whether rate bureaus would, effective July 1, 1984, lose their antitrust immunity to collectively set rates to move DOD traffic. Although industry and DOD disagreed on this point, DOD decided to proceed with its new rate acquisition program. According to DOD, failure to proceed with the program would have left DOD unprepared for service disruptions if rate bureaus lost their antitrust immunity. MTMC believed it had to prepare for the end of collective ratemaking. Moreover, DOD stated there was considerable lead time to solicit, receive, and evaluate rates and that, consequently, the risks attendant to proceeding were less than those associated with delaying the program.

In response to questions from members of the Congress, we considered the collective ratemaking issue and concluded that rate bureaus would lose their antitrust immunity to establish single line rates on government traffic effective July 1, 1984. (See B-213676, Apr. 11, 1984.) We cited ICC proceedings and legislative history on the Motor Carrier Act of 1980 as evidence. We noted that the Congress had weighed the advantages and disadvantages of the rate bureau process and had concluded that the collective setting of rates should be prohibited in order to achieve more competitive pricing. We also concluded that DOD was legally required to solicit rates from individual carriers because rate bureaus would not be able to furnish the services they had historically provided.

The rate bureaus challenged their exclusion from offering rates under the new DOD rate acquisition program before the U.S. District Court for the District of Columbia in the matter of Household Goods Carriers' Bureau, Inc., et al. v. the United States Department of Defense, et al., Civil Action No. 84-5836. The district court upheld DOD's right to exclude the rate bureaus, and the U.S. Court of Appeals affirmed the lower court's decision on February 21, 1986.

Objectives, Scope, and Methodology

Because of numerous protests from industry members over MTMC's modifications to the interstate rate acquisition program, 33 members of the Congress asked us to review it. Specifically, our objectives were to determine

- the program's impact on (1) the moving industry, (2) the federal government, and (3) the quality of the service members' moves and
- the status of the Air Force's Total Cost Transportation Program. (See app. V.)

To accomplish these objectives, we obtained the views of MTMC officials, military officials, major moving industry trade associations and bureaus, and industry members who had contacted members of the Congress requesting this review. We also reviewed service level and MTMC claims data and overall DOD shipment, tonnage, and revenue data for fiscal years 1981-84.

For example, to determine impact on the quality of service, we compared the number and cost of claims for two corresponding rate cycles. We collected data for the rate cycle beginning May 1, 1983, and ending October 31, 1983, and compared it with data from the corresponding rate cycle in 1984. A rate cycle is the 6 months during which carrier rates are in effect. The rate cycles are in effect from November 1 through April 30 and from May 1 through October 31. Since the new program began with the rate cycle starting May 1, 1984, we were able to compare this cycle only with the comparable 1983 time period. Data available from the rate cycle extending from November 1, 1984, to April 30, 1985, was not sufficiently complete to be used in any comparisons.

Our review, conducted between December 1984 and September 1985, was performed in accordance with generally accepted government auditing standards.

Bureau and Members' Objections to MTMC's Modified Interstate Rate Acquisition Program

As evidenced by comments to MTMC and by constituent letters to the members of the Congress requesting our review, the household goods transportation industry expressed numerous concerns regarding MTMC's modifications to the Interstate Rate Acquisition Program. Prior to the program's implementation, industry also provided written objections to MTMC's proposed modification. Principally, these focused on MTMC's intention to set the rates and bypass the rate bureaus. Other concerns included increased paperwork requirements on carriers and increased government costs associated with the program.

MTMC's Intention to Bypass Carrier Rate Bureaus

Industry representatives questioned the legality of MTMC's proposal to exclude rate bureaus from the setting of rates to move DOD interstate traffic. For example, the Household Goods Carriers' Bureau, in written comments to MTMC, stated that MTMC's proposal to prohibit the filing of rates established by the Bureau to MTMC ". . . was directly contrary to express congressional authorizations contained in the Interstate Commerce Act." In support of its view, the Bureau noted two functions permitted after July 1, 1984: the collective formulation of (1) rate increases and decreases and (2) changes in commodity classifications. Thus, according to the Bureau, the act authorized continuation of rate bureau activities.

Objections to Constant Baseline Rates

The Household Goods Carriers' Bureau expressed concern regarding MTMC's intention to keep its baseline rates constant from cycle to cycle until the average percentage of the baseline submitted by the carriers had reached such a level that the baseline needed to be increased. MTMC's solicitations contain segmented baseline rates (one rate for line haul and one for the other services) and single factor baseline rates (one rate for both line haul and other services). Under this procedure, carriers file rates expressed as a percentage of the baseline rates which can be equal to, below, or above the baseline rate levels. Although MTMC maintained that carriers were free to bid in excess of 100 percent, industry said the baseline levels were perceived as constituting the maximum allowable rates for DOD traffic and that carriers would be reluctant to submit percentages higher than 100.

Other Industry Concerns

The Household Goods Carriers' Bureau also noted that MTMC's program would increase paperwork by requiring each carrier to file a rate for each military installation it chose to serve. In addition, the Bureau noted that the MTMC staff might not be able to accurately establish, produce, maintain, and distribute its solicitations. Also, because MTMC would now have to print and distribute the tariffs, it would have to incur the costs previously incurred by the rate bureaus.

MTMC's Response to Industry Concerns

On January 7, 1984, MTMC issued a position paper on industry concerns. This paper cited MTMC's continued belief that under the Motor Carrier Act of 1980, collective ratemaking would end effective July 1, 1984, but stated that the collective ratemaking issue was not the principal justification to support its interstate rate program modifications. Rather, this issue was only one factor, among many, MTMC had considered prior to proposing these modifications. Others included price and service options, the increasing incidence of rate submissions, and the pattern of line haul rate increases.

MTMC also responded to industry objections that its program would

- adversely affect small carriers;
- create "cutthroat competition," thereby reducing the quality of services rendered; and
- increase paperwork.

MTMC stressed its position that the program would not affect small carrier participation because ". . . many small carriers in the DOD's interstate rate program are acting as agents of the large moving companies rather than actively exercising their own operating authority." It also noted that the more efficient small carriers electing to submit competitive rates would benefit from obtaining additional tonnage and could submit very competitive rates because they were not burdened with high overhead, excessive administrative costs, or high labor rates.

MTMC also did not agree with industry members and bureaus that increased competition would result in cutthroat competition and would reduce the quality of service. Rather, MTMC noted that carriers performing deficiently would continue to be suspended or disqualified from MTMC's interstate program, regardless of the carriers' rate level.

MTMC agreed that its requirement for all carriers to file during the rate-filing period, to qualify for subsequent participation in the rate equalization period, meant an increase in the number of rates filed. However, MTMC noted several changes which it said would substantially reduce the paperwork burden:

"(1) the solicitation represents a single standard document containing uniform rules and baseline rates which all 657 carriers may use to express their rates, versus each individual carrier having to file their own unique document; (2) the new document contains all rates for a personal property shipping office, replacing the possibility of up to 49 separate documents covering the 49 states; and (3) an automated rate system to replace the present manual system will be implemented during June 1984 which should greatly reduce paperwork costs and workload burdens on the carrier."

No Apparent Adverse Impact on Industry

Although the member carriers and bureaus maintained that MTMC's interstate solicitation program would adversely affect the industry, we did not find that industry has been adversely impacted, to date, as a result of MTMC's changes to the program. However, data from only one complete cycle was available for our review. According to American Movers Conference, the increased revenue for most carriers may possibly be masking the poor financial condition of van lines, agents, and independent contractors.

In our efforts to determine if the program had adversely impacted the industry, we sent letters to the 15 industry members that had complained to various members of the Congress about MTMC's program. We informed them we were evaluating MTMC's new program, and we requested their views on program impacts on their businesses. Moreover, we asked them to provide documents demonstrating any claim that the program was adversely impacting their businesses.

Although we had requested responses by April 26, 1985, we received only four written responses through January 1986. While three respondents stated they still did not agree with certain aspects of the program, none provided any evidence that the new program had adversely impacted their businesses. During follow-up with the remaining industry members, eight stated they did not plan to respond to our request letter and two others indicated they might respond, but neither has done so yet. While these industry members represent only a small portion of the industry, their complaints stimulated congressional interest.

The Household Goods Carriers' Bureau expressed concern to us about MTMC's maintenance of constant baseline rates between rate cycles. Without periodic adjustments, the Bureau stated, MTMC's baseline levels will promote price discounting at dangerous rate levels, thus contributing to industry's demise. Further, industry representatives have speculated that without carrier and bureau involvement and/or a legislative requirement to ensure fair and reasonable rate levels, the continuation of this policy not only will adversely affect the industry but will also increase government moving costs and might create pressure on carriers to participate in rate collusion in order to effect more desirable rates.

As previously discussed, MTMC reasons that since carriers are free to bid in excess of its baseline levels, this could reduce the need for periodic baseline adjustments. Thus, MTMC states it will maintain constant baseline levels from rate cycle to rate cycle until the average bid rate reaches such a level that the baseline needs to be increased.

The Household Goods Carriers' Bureau contends that MTMC's premise is not realistic because carriers perceive the baseline levels as maximum rate levels and, thus, have a "psychological barrier" against exceeding them. Historically, according to the Bureau, carriers that used bureau-formulated DOD tariffs could not submit rates higher than the baseline level (100 percent), as approved by ICC. Also, the Movers' and Warehouseman's Association has said carriers know there is no point in exceeding MTMC's baseline levels because such bids will not secure traffic.

In addition, the Association contends that large system carriers can consistently underbid smaller industry elements because of their diversity and strength. Also, according to the Association, since only one carrier needs to submit a low bid for each origin/destination channel, others, dependent on DOD business, are forced to match the low rate to obtain tonnage. However, MTMC contends that small- and medium-size companies file the majority of the low rates.

According to the Household Goods Carriers' Bureau, the lack of periodic adjustments to the baseline rates could also create a problem for DOD movers because they may not realize that MTMC baseline levels are not intended to capture the full cost of operation plus a profit, as were bureau rates.

Industry representatives say that MTMC's baseline is already 18 percent below commercial tariff levels (the moving industry secured a 10-percent commercial increase in Feb. 1984 and an 8-percent increase in Jan. 1985). Consequently, since some carriers do not have the capacity to independently assess their costs, they may underbid relative to their actual costs. The disparity between commercial rates and MTMC's rates and industry's perception that carriers have a psychological barrier against exceeding baseline levels have resulted in industry's belief that MTMC is eroding industry's price levels and creating price competition at dangerously low rate levels.

Another concern expressed by carriers to members of the Congress was that MTMC's new program would force some small carriers out of business because they could not compete with the larger carriers. Although it may be too early for the full impact to be felt, we could not find any instances where carriers had gone out of business due to MTMC's program. However, carriers do not have to notify MTMC if they terminate their operations and MTMC would become aware of bankruptcies only informally or if a carrier was in the process of delivering shipments and could not complete the delivery.

We were also unable to determine whether carrier revenues had decreased due to MTMC's new rate solicitation program. A comparison of the revenues paid to major carriers for the period May 1 to October 31 in 1983 and 1984 showed increases in DOD shipments and revenues. There were 110,000 shipments hauled by all DOD-approved carriers during this period in 1984, an increase of 1,408 over the same period in 1983. Carriers were paid $228 million during the 1984 period, or an increase of $37 million over the $191 million paid for the comparable 1983 period. MTMC officials attributed the significant increase to the 10-percent increase in the baseline rates effective with the new rate cycle beginning May 1, 1984. The revenue for 8 of the top 10 carriers in 1983 increased in 1984 for the period May 1 to October 31. One carrier's revenue increased by over $2.3 million.

Impact on Government's Administrative Costs Appears Minimal but Cannot Be Quantified

One of industry's concerns was that MTMC's new program would result in higher costs to the government. Industry felt that DOD costs associated with paperwork would increase significantly. Industry noted that since the rate bureaus would no longer set the rates and publish the tariffs, MTMC would have to bear the costs of printing and distributing the tariffs.

We did not find any evidence that costs to the government had increased significantly. MTMC's new program does require carriers to file rates in the initial rate-filing period in order to participate in the second cycle, the rate equalization period. Previously a carrier could just wait and agree to the lower rate without filing. While MTMC agreed the paperwork had increased, the new program incorporated a single standard document with uniform rules and baseline rates which all carriers used to express their rates versus each individual carrier having to file its own unique document. According to MTMC officials, no additional staffing was needed to process the increased paperwork. MTMC could not provide us with the cost of processing the additional paperwork, but according to one official, a new automated system has eliminated the need for all overtime. MTMC officials estimate that the overtime was costing about $100,000 a year and this savings more than covered the cost of processing the paperwork.

With respect to the cost of publishing and distributing the tariffs, MTMC agreed that it would incur these minimal costs. MTMC provides one copy of the tariff to each carrier and the bureaus and associations. The bureaus and associations reproduce and provide additional copies to their members.

No Significant Increase in Number or Value of Claims to Date

Industry carriers and bureaus were concerned that MTMC's new interstate rate program would create competition among the carriers that would result in a decline in the quality of service. One industry bureau was concerned that in response to the increased competition, carriers would cut corners to reduce costs, thereby causing the quality of service to decline. As the quality of service declined, more claims would be filed by the service members.

Since MTMC's new program began with the rate cycle beginning May 1, 1984, and ending October 31, 1984, we compared this cycle with the corresponding 1983 cycle to determine if there were any significant changes in the number or cost of claims. According to data received from the four services, the number of claims decreased by 959 and the cost increased by $1.2 million from the 1983 cycle to the 1984 cycle. The number of claims decreased in the Army and Air Force and increased in the Navy and the Marine Corps. The cost of claims increased in all the services except the Army.

Table I.1 illustrates the number and cost of claims for the services.

Table I.1: Number and Cost of Claims by Service

Cycle	Army	Air Force	Navy	Marine Corps	Totals
Number					
May 1 - Oct. 31,1983	29,120	20,252	12,986	2,375	64,733
May 1 - Oct. 31,1984	27,723	20,185	13,174	2,692	63,774
Difference (1984-83)	−1,397	−67	+188	+317	−959
Cost (Dollars in Millions)					
May 1 - Oct. 31, 1983	$16.5	$10.2	$6.1	$0.9	$33.7
May 1 - Oct. 31, 1984	16.3	10.6	6.7	1.3	34.9
Difference (1984-83)	−$ .2	+$ .4	+$ .6	+$ .4	+$ 1.2

Because of the time a member has to file a claim (2 years) and because of the time it takes to process and pay a claim, we were not able to analyze claims for a later cycle. Although our comparison of the one cycle did not reveal significant changes in either the number or cost of claims, we believe the data may be insufficient to accurately determine the full impact the program has had on claims.

Industry Comments and Our Evaluation

American Movers Conference

The American Movers Conference (AMC), in commenting on a draft of this report, stated that many of its previous objections had been overtaken by events. It cited specific changes made by MTMC which had made the program more acceptable.

AMC did voice concern about what appeared to be a sharp increase in the number and cost of claims in fiscal year 1985. However, we determined that the numbers used by AMC (from MTMC's Quarterly Military Traffic Management Report) were erroneous. Specifically, the table furnished by AMC showed that the Air Force had 60,890 claims valued at $33.396 million in fiscal year 1985. The correct number and cost was 40,411 and $21.940 million. Instead of 152,882 total claims costing $82.704 million, as shown in the AMC document, the correct totals were 132,403 claims costing $71.248 million—a slight decline from fiscal year 1984.

AMC also expressed concern about the economic health of the van line segment of the moving industry. It said that revenues were up for most carriers but that profits were drastically down. AMC took exception to a statement in our report to the effect that we could not find any instances where carriers had gone out of business due to MTMC's program changes. It furnished a list of 12 carriers which had ceased DOD operations during the past few years, but also pointed out that it would be difficult to specify one action which had caused these carriers to discontinue participation in DOD's domestic traffic.

In reviewing this list, we found that most of the carriers handled little or no domestic DOD traffic. In fact, the 12 carriers that ceased DOD operations in 1984 and 1985 handled only 1.4 percent of the total shipments moved in fiscal year 1984. Also, Imperial Van Lines, Inc.; Imperial Van

Lines, Inc., West; and Imperial Van Lines, Inc., of California apparently were related to Imperial Van Lines International—an international forwarder. When Imperial International ceased DOD operations in January 1985, the others also ceased operations. Four of the other carriers listed by AMC moved a total of 16 domestic DOD shipments.

As explained earlier, we asked carriers that had complained to the Congress to document any adverse impact the program changes had on their operations. If they were losing money on DOD traffic, they had ample opportunity to provide cost data to demonstrate such problems. None chose to do so. Therefore, our initial position remains unchanged—we could not find any instances where carriers had gone out of business because of MTMC's changes in the program.

Household Goods Carriers' Bureau

In its comments on our draft report, the Household Goods Carriers' Bureau provided additional details on certain program changes and DOD's rationale for instituting such changes. The Bureau commented on issues such as rate increases over the past few years and the question of the antitrust immunity of the rate bureaus. (See app. IV.)

We were not asked to make an overall evaluation of DOD's rationale for modifying its rate solicitation process. We did, in response to questions from members of the Congress, consider the collective ratesetting issue. In our 1984 legal decision, we concluded that the rate bureaus would lose their antitrust immunity to establish single line rates on government traffic and that DOD was legally required to solicit rates from individual carriers because rate bureaus would not be able to furnish the needed service. The rate bureaus challenged in court their exclusion from offering collective rates on DOD traffic. However, the court has upheld DOD's right to exclude the rate bureaus.

With respect to program impact on industry, government, and military service members, the Bureau's comments focused on three aspects—apparent increases in claims costs, bankruptcy of carriers, and carrier gross revenues and net earnings. All of these factors have been covered in our evaluation of the comments of the American Movers Conference.

Comments From the Assistant Secretary of Defense

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-8000

ACQUISITION AND LOGISTICS

LM-TP

15 JAN 1986

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the November 29, 1985, General Accounting Office (GAO) draft report, "Interstate Rates-DoD Program For Moving Household Goods", (GAO Code 393014, OSD Case 6889). The Department has reviewed and concurs in the conclusions of the draft report.

The Department appreciates the efforts of the GAO to review this important program and thanks you for your assistance.

Sincerely,

James P. Wade, Jr.

James P. Wade, Jr.

Enclosure

Comments From the American Movers Conference

Note: GAO comments supplementing those in report text appear on the last page of this appendix.

AMC

CHARLES C. IRIONS
Major General, USAF (Ret.)
President

January 3, 1986

Frank C. Conahan, Director
U.S. General Accounting Office
441 F Street, NW
Washington, DC 20548

Dear Mr. Conahan:

This letter is in response to your request of November 26, 1985, that the American Movers Conference provide comments by December 26, 1985, on your draft report entitled, "Interstate Rates -- DOD Program for Moving Household Goods" (code 393014). In our letter of December 23, 1985, we asked for an extension until January 7, 1986, to respond with our comments.

As we stated in our letter of May 6, 1985, many of our previous objections to the interstate rate filing program, which began May 1, 1984, have been overtaken by events. Specifically, the Military Traffic Management Command (MTMC) did add back into their Interstate Rate Solicitation Program all the revenue items in the tender they had initially removed. Also, the initiation of the automated domestic rate filing procedures overcame additional objections caused by the enormous increase in paperwork requirements generated by the program. These changes have made the program more acceptable to the moving industry and also provide an explanation why many of the 15 industry members did not respond with written comments to the program's impact on their businesses.

Carriers and agents servicing government shipments are predominately small companies. Therefore, the state of change and confusion produced by MTMC's continual regulatory and procedural adjustments are particularly onerous for a segment of the industry that is having economic difficulties adjusting to the new and less stable business environment. MTMC seldom lets a program settle in before it begins a new program or revises its existing rules and procedures. For example, before this GAO report is finalized, a revised domestic rate solicitation system will be in effect. Specifically, for the domestic rates effective May 1, 1986, which were required to be submitted December 11, 1985, only a single percentage applying both to the baseline linehaul rates and to most accessorial charges will be permitted. No longer will there

American Movers Conference · 2200 Mill Road · Alexandria, VA 22314 · (703) 838-1930 · *Affiliated with American Trucking Associations*

Frank C. Conahan
January 3, 1986
Page 2

be a percentage rate applying to segmented baseline rates consisting of one rate for linehaul and another for the packing services. Another modification that has been proposed and temporarily delayed, after industry comments were received, is a test of a guaranteed traffic program. This program would have allocated to the low-cost carrier all the traffic it could handle that was moving between the Joint Personal Property Shipping Office, Washington, DC and eleven other major shipping offices. In this instance, only one percentage rate was to apply in both directions. Another revision currently under preliminary evaluation by MTMC is a proposal to eliminate the "me too" rate filing cycle. Admittedly, this is only under preliminary consideration, but the thought of such a major change causes great concern to the members of the consolidated moving system.

Moreover, there are additional items which cause concern to this industry. First, the cost of claims continues to increase from the $65 million in FY 1981 to over $82 million in FY 1985 (see enclosure 1). The number of claims has also increased from over 129,000 in FY 1981 to over 152,800 in FY 1985. This five-year trend of claims costs begins to bear out industry's contention that these new programs, which emphasize lower rates and increased competition do impact adversely on the program. While the cost of each military claim has generally been increasing, the opposite is the case in the private sector where the cost per claim has been decreasing. Therefore, we believe that it is very timely to assess the extent of claims costs being generated from this program.

Secondly, we continue to be concerned about the present economic health of the van line segment of this industry. The total revenues are up for most carriers, but profits are drastically down. This increased revenue may possibly be masking the poor financial conditions of the consolidated moving system which is made up of the van lines, agents and the owner-operator contractors. The Household Goods Carriers' Bureau reports that earnings of the nation's largest interstate moving companies declined during the third quarter of 1985. As for the twelve-month period ending September 30, 1985, operating revenues increased 5.4 percent and revenue tons hauled rose 6.6 percent over the same period of 1984. Net carrier operating income was $47.5 million, compared with $60.2 million for the same period of 1984, which represents a decline of 21.2 percent. The operating ratio, which is the ratio of operating expenses to operating revenues, increased from 97.0 to 97.7 percent. Net income (excluding North American Van Lines) was $24.4 million compared with $37.4 million for the year ending September 30, 1984, which reflects a decline of 34.6 percent. Eleven of the seventeen reporting carriers reported declines in net income despite increases in gross operating revenues and tonnage.

Next, there have been a number of interstate Department of Defense (DOD) approved carriers that have ceased operations during the past few years. It is difficult to specifically point to one action which caused these carriers to discontinue participation in DOD domestic traffic, but for your report to say that there are no instances where carriers have gone out of business due to the program is clearly incorrect. The names of some of the carriers that have ceased DOD operations are:

Imperial Van Lines, Inc.	Fleet Int'l. Fowarders
Imperial Van Lines, Inc. West	Gateway [redacted] Forwarders,Inc.
Imperial Van Lines, Inc. of Ca.	Bridge Forwarders, Inc.
Inter Intra Inc.	Acme Fast Freight, Inc.
Neptune Worldwide Moving	Keaton Transfer & Storage, Inc.
Security Forwarders, Inc.	Sterling Stge. & Van Co., Inc.

Additionally, we still object to MTMC's intention of keeping its initial baseline rates and charges constant from cycle to cycle until the average percentage of the baseline submitted by the carriers reaches a figure of well above the "psychological barrier" of 100 percent. Some baseline rates and charges have not been changed since 1983. In the new procedures effective May 1, 1986, carriers will no longer be permitted to submit one percentage rate for the linehaul and another percentage for the packing services. This also increases the paperwork and makes it more difficult for a carrier to recoup limited cost increases. For example, if only the origin packing costs have increased and a carrier desires to recover these costs, the carrier must now increase the percentage that applies equally to both the origin packing and linehaul baseline rates. The disproportional revenue received from the increase in linehaul and origin packing services must then be prorated back to the origin agent. Repeated requests to MTMC to provide a system for adjusting the baseline rates and charges have not brought about any change. Movers have recommended that the Consumer Price Index, less the cost of food, would be one method to make adjustments to the baseline rates and charges. Using such a method, the baseline rates and charges would be updated closer to current costs.

We appreciate the opportunity to respond to your draft report and should you need further information, please contact the American Movers Conference at (703) 838-1934.

Regards,

Charles C. Irions

Enclosure: 5-Year Claims Schedule

See comment 1.

PERSONAL PROPERTY TRAFFIC

LOSS AND DAMAGE CLAIMS

FISCAL YEARS 1981 through 1985

SERVICE	Fiscal Year 1981		Fiscal Year 1982		Fiscal Year 1983		Fiscal Year 1984		Fiscal Year 1985	
	Number of Claims	Cost (000)	Number of Claims	Cost (000)	Number of Claims	Cost (000)	Number of Claims	Cost (000)	Number of Claims	Cost (000)
Army	56,458	$29,519	54,881	$29,889	61,156	$33,126	57,548	$34,376	61,397	$36,546
Air Force	42,099	20,561	41,299	20,377	41,473	20,709	41,818	24,831	60,090	33,396
Navy	24,618	12,662	27,456	10,004	26,140	8,898	27,829	12,255	25,392	10,449
Marine	6,059	2,449	5,100	1,939	4,715	2,000	5,361	2,518	5,203	2,313
TOTAL	129,234	$65,191	128,736	$62,209	133,484	$64,733	132,556	$73,980	152,082	$82,704

Source: MTMC Traffic Management Progress Report RCS DD-M(Q) 493

The following are GAO's comments on the letter from the American Movers Conference dated January 3, 1986.

GAO Comments

1. The number and cost of Air Force claims for fiscal year 1985 are in error. See discussion on p. 19 for correct figures.

Comments From the Household Goods Carriers' Bureau

Note: GAO comments supplementing those in report text appear on the last page of this appendix.

HOUSEHOLD GOODS CARRIERS' BUREAU
1611 Duke Street, Alexandria, VA 22314-3482
Phone (703) 683-7410, Mileage Guide Information (703) 683-7419

January 7, 1986

Frank C. Conahan, Director
U. S. GENERAL ACCOUNTING OFFICE
441 G Street, NW
Washington, DC 20548

RE: GAO Draft Report--Interstate Rates DOD Program For Moving Household Goods

Dear Mr. Conahan:

On behalf of its 1,700 member carriers, the Bureau sincerely appreciates the opportunity to provide comment regarding your draft of a proposed report entitled, "Interstate Rates DOD Program For Moving Household Goods".

The referenced draft report accurately portrays the comments and objections initially communicated to the General Accounting Office (GAO); however, there are clarifications, errors and unfounded statements contained in the draft that require our comment and response.

Now on p. 8.

The summary on page 2 of Appendix I regarding MTMC's procedures prior to May 1, 1984, is essentially correct; however, it is important to stress that the Bureau tariffs containing rates, rules and charges were maintained and adjusted through instructions from Bureau carriers to account for changes in carrier costs and operations. Periodic changes to Bureau tariffs were made to coincide with each MTMC six-month filing cycle. More importantly, the majority of approved DOD carriers filed individual tenders providing percentage discounts from the Bureau established linehaul rates and packing rates on the preponderance of tonnage offered by MTMC. That is, although the Bureau carriers had the opportunity to periodically adjust Bureau baseline-type rates through the collective ratemaking process, 70 percent of the shipments rated under the Bureau's military traffic moved pursuant to individual carrier rate tenders reflecting reductions from the Bureau established rate levels.[1]

1/ Military Shipment Analysis, 1983 Bureau Continuing Traffic Study.

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Now on p. 9.

Page 3 of Appendix I details the modified process implemented by MTMC on May 1, 1984. The next to the last paragraph states ..."The most significant changes are (1) the carriers now must submit their own rates to MTMC instead of relying on the rate bureaus, and (2) MTMC will now establish the baseline rates" (emphasis added). As indicated, prior to May 1, 1984, the majority of approved DOD carriers filed individual tenders containing percentage discounts on 70 percent of all military shipments; therefore, Bureau carriers were already submitting their own rates (tenders) and the May 1, 1984, change merely required carriers to file tenders affecting 30 percent of the traffic. Of course, the mere requirement to file individual tenders for this small segment of traffic (as measured by revenue) did not preclude carriers from filing 100 percent tenders. Based on the aforementioned, the only significant change was the substitution of the Bureau baseline tariff, subject of cost-based adjustments approved by the ICC, for a MTMC baseline tariff (solicitation),wherein all linehaul and accessorial baseline rates remain static, regardless of changes in carrier costs or operations.

Now first paragraph on p. 10.

The last paragraph of page 3 addressing the rationale for changes in the MTMC procedures is correct insofar as the statement relating to the economic and regulatory environment in which the moving industry now operates, as compared to five years ago; however, DOD's statement that this new environment required them to protect themselves against unreasonably high rates and undesirable terms and conditions is simply unfounded. Between 1980 and May 1, 1984, Bureau carriers introduced a number of price/service options and other operational plans that directly benefited their shipper customers. The publication of these price/service options was accomplished with the assistance of the Bureau. These new price/service options took the form of a multitude of discount plans, as well as other options such as binding estimates, guaranteed pickup and delivery, prepayment plans, replacement value protection, selected delivery date service, day certain loading, subsequent delivery followup, expedited claim settlement service, unpack and put away service, etc. Of course discounting through individual military tenders was for a number of years a vital part of the MTMC rate filing procedures prior to May 1, 1984. In fact, the military was the only segment receiving discounted rates prior to 1980. However, subsequent to 1980 non-military C.O.D. and national account customers were offered all of the aforementioned price/service options, which for the most part resulted in either further reductions and/or an increase in the quality of service. However, these price/service options (other than percentage discounts) were not requested and/or allowed to be offered to the military due to MTMC rate filing regulations. Therefore, it would appear that MTMC designed their procedures to protect themselves from desirable terms and conditions rather than from undesirable terms and conditions as detailed in the draft report.

Now on p. 10.

At the bottom of page 4, Appendix I, you report that according to DOD the increase in the number and size of discounts offered by carriers, when comparing 1980 to 1983, indicated that rates submitted by rate bureaus were excessive. The Bureau submits that the increase in the number of tenders filed and the range of discounts offered simply were a function of an increase in the number of DOD approved carriers; over capacity; and a two-year recession. As information, during the two years the modified MTMC procedures have been in effect the range of percentage discounts has not materially changed; and, although individual paper tenders are no longer filed, the November 1, 1985, MTMC filing cycle resulted in the electronic processing of some 1.6 million rate submissions. No doubt this last filing cycle would have at a minimum mirrored the tender submissions manually processed by MTMC in 1983. Since MTMC's current baseline rate levels reflect 1983 ICC approved rate levels, the current number and size of DOD approved carrier percentage discounts cannot support the proposition that the current MTMC baseline rate levels are excessive.

The reference to the carriers' waiving of the 10 percent, November 1, 1983, linehaul increase was not a bellwether for a more competitive household goods carriers industry, but was simply a direct response to MTMC's threat that carriers who did not waive the 10 percent increase would not be guaranteed any traffic. Obviously, carriers whose livelihood is dependent upon military traffic had no choice but to waive the 10 percent increase under the conditions mandated by MTMC. The need for the 10 percent increase was justified and ultimately MTMC agreed to include the increase in their baseline rates.

Now on p. 11.

At page 5 of Appendix I, it is reported that the Bureau's general rate increases reviewed and approved by the ICC vis-a-vis extensive justification statistics, were excessive because these increases outpaced both the Producer (PPI) and Consumer (CPI) Price Indexes. This unfounded conclusion is based on a reference to an aggregate increase in rates between January, 1979, and June, 1983, of 84.7 percent, as compared to the PPI Index of 37 percent and the CPI Index of 45.6 percent for the same period. The source of the 84.7 percent figure was a statement filed by the DOD in an ICC proceeding entitled, Ex Parte No. MC-72--Withdrawal of Antitrust Immunity For Collective Ratemaking On Small Shipments. The following information is a reproduction of the percentages referred to by DOD:

TABLE 1

RATE INCREASES AS COMPUTED BY DOD

Effective Date	Description	Amount (Percent)	Cumulative Rate Level (Percent)
January 1979	--	--	100.00
April 1979	General	4.2	104.2
October 1979	General	5.5	109.9
January 1980	General	9.8	120.7
January 1981	General	2.0	123.1
March 1982	General	9.2	134.4
April 1982	Fuel Fold-In	9.4	147.1
April 1982	Shortfall Increase	7.3	157.8
January 1983	General	6.4	167.9
June 1983	General	10.0	184.7

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The 84.7 percent was based on the above cumulation of percentages, which included two rate increases which are reported to have taken effect in April, 1982. These two rate increases were implemented vis-a-vis ICC procedures as a replacement for an existing mandated 18 percent fuel surcharge ordered by the ICC. The 18 percent fuel surcharge was established by the ICC and all carriers were mandated to assess it for the purpose of compensating owner-drivers for increased costs of diesel fuel during the fuel crisis of 1979-1980. This particular fuel surcharge was monitored and adjusted by the ICC on a periodic basis and was as high as 19 percent.

On April 11, 1982, pursuant to an ICC order (Ex Parte 311, Sub 4, Modification of the Motor Carrier Fuel Surcharge Program), the Bureau cancelled the 18 percent fuel surcharge and increased its linehaul rates by 7.3 percent and established a new surcharge of 9.4 percent. The net affect of this mandated change was a reduction in rates (charges) of 0.61 percent.

Table 2 below, shows the impact of the DOD aggregate percentage when accurately accounting for the cancellation of the 18 percent fuel surcharge.

TABLE 2

RATE INCREASES PROPERLY COMPUTED

Effective Date	Description	Amount (Percent)	Cumulative Rate Level (Percent)
January 1979	--	--	100.0
April 1979	General	4.2	104.2
October 1979	General	5.5	109.9
January 1980	General	9.8	120.7
January 1981	General	2.0	123.1
March 1982	General	9.2	134.4
April 1982	Fuel Surcharge	9.4	147.1
April 1982	Shortfall Increase	7.3	157.8
April 1982	Fuel Surcharge Cancelled	<18.0>	129.4
January 1983	General	6.4	137.7
June 1983	General	10.0	151.5

A comparison of the 51.5 percent to the 45.6 percent CPI Index is a much more accurate comparison, even though the CPI Index is not designed to accurately portray household goods carriers' cost of doing business, especially in the area of increases in state and federal taxes, user fees, insurance, etc.

Now third paragraph on p. 11.

The last paragraph on page 5 of Appendix I states that, "The Motor Carrier Act of 1980 created controversy whether or not rate bureaus would, effective July 1, 1984, loose their antitrust immunity to collectively set rates to move DOD traffic". It is the Bureau's position that the Motor Carrier Act of 1980 did not create controversy regarding

Now last paragraph on p. 11.

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whether or not rate bureaus would loose their antitrust immunity effective July 1, 1984, to set rates for any traffic. The first paragraph on page 6 of Appendix I is essentially correct in that Congress, through the Motor Carrier Act of 1980, removed antitrust immunity to establish single-line rates on all traffic, whether government or commercial; however, Section 10706(3)(D) provided specific exceptions to the single-line antitrust prohibition as follows:

1. General rate increases or decreases if the agreement gives shippers, under specified procedures, at least 15 days' notice of the proposal and an opportunity to present comments on it before a tariff containing the increases or decreases is filed with the Commission and if discussion of such increases or decreases is limited to industry average carrier costs and, after the date of elimination of the antitrust immunity by this subparagraph, does not include discussion of individual markets or particular single-line rates.

2. Changes in commodity classifications.

3. Changes in tariff structures if discussion of such changes is limited to industry average carrier costs and, after the date of elimination of antitrust immunity by this subparagraph, does not include discussion of individual markets or particular single-line rates.

4. Publishing of tariffs, filing of independent actions for individual member carriers, providing of support services for members, and changes in rules or regulations which are of at least substantially general application throughout the area in which such changes will apply.

Since July 1, 1984, the Bureau has continued to conduct its collective ratemaking activities pursuant to the above-referenced exceptions and, as a consequence, has published and effected a variety of collectively established rates and provisions to its commercial and government tariffs. As information, the Bureau and its carriers have worked closely with the General Services Administration (GSA), through its current ratemaking procedures, to accomplish a variety of changes in the Bureau's collectively maintained non-military government tariff for the mutual benefit of both its member carriers and GSA.

Since many ratemaking functions that were conducted prior to July 1, 1984, are still being utilized, DOD's position that ..."failure to proceed with their program would have left DOD unprepared for service disruptions if rate bureaus lost their immunity..." is unfounded. The unfounded nature of this position is further substantiated by the fact that MTMC's own Inland Traffic Directorate made no changes in their filing procedures just prior to, or after, July 1, 1984; and for the past 18 months have continued to accept collectively established rate tenders submitted by general commodity rate bureaus.

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The Bureau submits that since July 1, 1984, ratemaking services historically provided to its member carriers through MTMC procedures in effect prior to May 1, 1984, could have continued, just as they have continued in the commercial sector, and the non-military government sector. Therefore, the Bureau must respectfully question how the GAO can conclude that DOD was legally required to solicite rates from individual carriers because rate bureaus would not be able to furnish services they historically provided.

Now on p. 18.

At page 14 the draft accurately reports the Bureau's concern that MTMC's new interstate rate program would create destructive competition among approved carriers, and that it would result in a decline in the quality of service. Based on industry concern, a comparative analysis of the cost and frequency of claims is critical to a GAO review of MTMC's procedures. Increases in claims frequency and/or claims costs would have supported the Bureau's position, just as no changes and/or a reduction in claims frequency and costs would have supported DOD's position. Therefore, as stated it was important that GAO attempt to make an analysis of claims frequency and costs. Unfortunately, the required claims data was not available at the time GAO prepared its draft report and, as a consequence, the draft report should have simply referenced the fact that no meaningful claims data was available.

Instead, the draft report contains extensive reference to claims data comparing fiscal year 1981 to fiscal year 1984. The draft report goes on to compare the May-October 1983 cycle to the May-October 1984 cycle, and concludes that the number of claims declined slightly while the cost of claims increased slightly.

As information, it would be extremely unusual if claims paid during the May-October 1984 cycle were claims paid on shipments rated under MTMC's Interstate Rate Solicitation 4-1, because: (1) DOD personnel have two years to file shipment claims and obviously a claim cannot be filed until after a shipment is delivered to the member's residence; and (2) based on the Bureau's 1984 Continuing Traffic Study, 38 percent of all DOD shipments require storage-in-transit. Storage obviously delays ultimate delivery to a member's residence. Of those shipments requiring storage, 70 percent remain in storage an average of 14 days, while the remaining 30 percent are stored an average of 60 days.

Therefore, based upon the claims data of record, GAO's draft report should have simply concluded that it was not possible to make any meaningful evaluation of the impact of the MTMC modified program based on the frequency or amount of claims data available.

Fortunately, MTMC has recently released fiscal year 1985 claims data. The following table shows a comparison of fiscal years 1981 through 1985, as reported by MTMC.

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See comment 1.

MTMC CLAIMS DATA

Fiscal Year	Number Of Claims	Cost Of Claims
1981	129,234	$65,191,000
1982	128,736	62,289,000
1983	133,484	64,733,000
1984	132,556	73,980,000
1985	152,882	82,704,000

It is clear from the above table that the frequency of claims for 1981 through 1984 has remained relatively constant; however, 1985 shows a 15.3 percent increase over 1984, and an 18.3 percent increase over 1981. The 1985 cost of claims increased 11.8 percent over 1984, and 26.9 percent over 1981.

The Bureau regrets the fact that our fears have been realized, that is, the quality of service has been negatively affected by MTMC's modified interstate rate program and GAO's draft report should reflect this experience.

Now on p. 1.

It was noted that the draft report indicated that GAO could not develop any information regarding the number of household goods carriers going out of business, or why they went out of business. The conclusion set forth on page 2 of the summary indicates, "We did not find any instances where carriers had gone out of business due to the program". This is misleading and a misstatement of the facts contained in Appendix I. The detail in Appendix I indicates that GAO had no data and, therefore, should not take a position regarding this subject. The Bureau is aware of the comments of the American Movers Conference (AMC) and in the interest of brevity, the GAO should take official notice of the bankruptcy information provided by the AMC.

Now on p. 17.

At page 13 of Appendix I the following statement is made, "Another concern expressed by carriers to members of the Congress was that MTMC's new program would cause carrier revenues to decrease...". On the same page your report indicates that GAO was unable to determine whether revenues had decreased due to MTMC's new Rate Solicitation Program. Concerns of the moving industry center on a decrease in earnings of the carriers vis-a-vis MTMC's new Rate Solicitation Program, not the fact that revenues may decrease. Revenue variances (up or down) can be a result of a variety of things such as: the number of shipments handled, rate adjustments, traffic mix, etc. Carriers are concerned with resultant earnings, not necessarily the level of revenues, since revenues can be changed a number of ways without regard to profitability. Insofar as earnings are concerned, the Bureau's latest Quarterly Operating Statistics for the third quarter of 1985 indicate that for the third straight quarter, earnings of movers have declined. Although statistics available to the Bureau do not distinguish between commercial and military movements, one could reasonably assume that if earnings are down company-wide and industry-wide, the military sector of the business has in some measure contributed to the negative earnings profile, especially

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since it is the only sector of the moving business that requires competitive bidding against a static rate base.

We again thank you for allowing the Bureau the opportunity to comment on your draft report, and we would be most happy to clarify and/or answer any questions you may have regarding this communication.

Very truly yours,

HOUSEHOLD GOODS CARRIERS' BUREAU

Joseph M. Harrison
President

JMH:mp

The following are GAO comments on the letter from the Household Goods Carriers' Bureau dated January 7, 1986.

GAO Comments

1. Claims data for the Air Force for fiscal year 1985 are in error. See discussion on page 19 for correct figures.

Status of the Air Force's Total Cost Transportation Program

DOD initiated the Air Force's Total Cost Transportation (TCT) Program in an attempt to improve the awarding of DOD household goods shipments to carriers. The program considers the total cost of doing business with a carrier by incorporating what DOD had to pay in actual claims costs due to loss and damage to a service member's household goods with what the carriers charged to move the household goods. DOD developed this program in response to our report[1] in which we pointed out the need to consider claims data as a major factor when carriers are awarded shipments. The services and their respective claims organizations recognized the concept's potential for judiciously and economically awarding traffic and commenced a joint effort to develop such a mechanism. The Air Force took the lead because of its internal automation capabilities.

To test the program, the Air Force documented shipment delivery and claims filed for actual shipments from the San Antonio Personal Property Shipping Office's area of responsibility to all destinations in the continental United States from January 1 through June 30, 1984. This data was programmed in a computer to determine what carriers would have been awarded the shipments using the proposed new method and then comparing the results with the carriers that were actually awarded the shipments.

The Air Force has completed its tests and has approved the concept of TCT and will forward a proposal to MTMC recommending that a "live test" be conducted using San Antonio again because of its automation capabilities. The Air Force recommends that the test period last for a year.

According to the Air Force, the implementation of TCT would provide a quality control program that would ensure quality service to military members; would reduce overall combined transportation and claims costs to the government; and would eliminate the requirement for centralized loss and damage quality control programs, such as MTMC's carrier evaluation and reporting system.

The single inhibitor to the timely integration of actual paid claims data and rates filed by commercial carriers to develop an actual cost to the government of doing business with any individual carrier is the lack of an operational standard personal property automated system. According to the TCT program manager, the solution to that constraint is the Transportation Operational Personal Property Standard System

[1] DOD's Revised Carrier Evaluation and Reporting System May Not Be Needed (GAO/PLRD-82-70, May 27, 1982).

(TOPS). TOPS is a DOD-approved standard system designed to automate all personal property functions from the first act of counseling the military member through pickup, movement, storage, and delivery of household goods and subsequent gathering, evaluating, and application of quality control information. TOPS will automate all military service personal property activities during fiscal years 1987 and 1988, assuming no funding restraints, according to the TCT program manager. This automation will include installation and military service headquarters level finance and claims activities. According to the TCT and TOPS program managers, the successful implementation of TCT depends on the implementation of TOPS.

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