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

MAR 20 1973

B-125187

The Honorable James V. Stanton
House of Representatives

Dear Mr. Stanton:

In your letter dated January 12, 1973, you asked for information on the additional costs the Federal Government would incur in maintaining the National Industrial Equipment Reserve (NIER) if the school loan program were terminated. You questioned whether terminating the school loan program would result in direct costs to the Government which would exceed the cost now incurred to operate the program.

Of the $1.8 million budgeted for NIER by the General Services Administration (GSA) in fiscal year 1972, about $500,000 was budgeted for the school loan program according to GSA officials. About $1.3 million was budgeted for other functions, such as storage costs, packing, handling, maintenance, and warehouse operations.

There were about 8,200 pieces of machinery on loan to schools as of September 30, 1972. Department of Defense (DOD) officials furnished us with cost estimates for storing and maintaining these 8,200 pieces of machinery, if recalled from the schools. DOD provided these estimates for both controlled humidified storage and general-purpose storage for 1- and 5-year periods. General-purpose storage sites would have to be used until controlled humidified storage becomes available. DOD's estimate is enclosed.

Our reply is directed to the six questions listed in your letter.

1. What costs would be incurred by the Government to maintain this machinery in working order if they were removed from the schools?

To maintain the machinery in working order, the equipment must be preserved and properly stored. Controlled humidified

storage offers the best protection for keeping machinery in working order. The total cost estimated for this type of storage for a 1-year period is $1 million and for a 5-year period is $2 million.

General-purpose storage is more expensive than controlled humidified storage since additional preservation and more frequent maintenance inspections are required. The estimated cost for general-purpose storage for a 1-year period is $1.2 million and for a 5-year period is $3.8 million.

2. Will the machinery deteriorate if placed in storage? If so, what will be the loss?

Deterioration of equipment depends on the adequacy of the storage facilities. Deterioration could be held to a minimum if the equipment is preserved and stored in controlled humidified or general-purpose storage sites. If the machinery were to be left untreated and stored in inadequate facilities, deterioration would occur more rapidly. If the machinery were improperly stored, the loss could equal the fair market value of the machinery less the scrap value.

We were unable to estimate the fair market value of the machinery on loan to the schools; however, the acquisition cost of this equipment was estimated at $41 million.

3. Do adequate storage facilities exist? What costs will be incurred to store?

DOD and GSA officials told us that, adequate storage space is not presently available for storing the 8,200 pieces of equipment. Costs for storing this equipment, would differ depending on the type of storage selected. The costs under the alternatives are shown in the answer to the first question and in the enclosure.

4. What other costs would be involved?

Included in DOD's cost estimate of storing the equipment are estimates for receiving, preserving, inspecting, and

represerving costs. Costs for physical protection, such as security while in storage, are included in the cost estimate of storage space.

Represervation costs, if the machinery was stored in general-purpose space for more than 1 year, are estimated at about $1.3 million over a 5-year period. The general-purpose storage estimate assumes that, during a 5-year period, all 8,200 pieces of equipment will need to be represerved several times.

5. How much would it cost the schools to replace the tools?

It would be difficult for the schools to replace the equipment currently on loan to them because of the limited supply of such equipment in the private sector. GSA and DOD officials estimated that replacing the equipment on loan with new equipment would cost between 2 and 2-1/2 times the acquisition cost of the equipment. Therefore, on the basis of an acquisition cost of approximately $41 million, the estimated replacement cost would be $82 to $103 million.

6. Who pays the cost of removing and shipping tools now in school custody?

If all the machinery on loan to the schools was recalled, the cost for transporting the machinery to a site or sites designated by the Government would have to be paid by the schools. Currently, there are 399 schools in 44 states which have NIER tools. The cost to transport industrial plant equipment depends upon the density and weight of the equipment being shipped, the distance to be transported, and the mode of transportation selected. Because of the various unknowns, we are unable to estimate the costs the schools would incur in returning loaned equipment to the Government.

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We trust this information is responsive to your request. We do not plan to distribute this report further unless you agree or you publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

Enclosure

ENCLOSURE I

ESTIMATED COSTS FOR STORING

APPROXIMATELY 8,200 PIECES OF MACHINERY

Costs	Controlled humidified storage		General-purpose storage	
	1 year	5 years	1 year	5 years
Receive and store	$ 656,000	$ 656,000	$ 656,000	$ 656,000
Preservation	123,000	123,000	328,000	328,000
Storage space	247,500	1,237,500	192,500	962,500
Surveillance	12,875	64,370	109,429	547,145
Represervation	-	-	-	1,312,000
Total	$1,039,375	$2,080,870	$1,285,929	$3,805,645