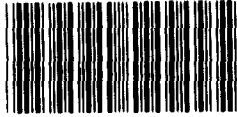


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



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STATEMENT OF
ROSSLYN S. KLEEMAN, ASSOCIATE DIRECTOR
GENERAL GOVERNMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON EMPLOYMENT AND HOUSING
COMMITTEE ON GOVERNMENT OPERATIONS
AND THE
SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
ON
RELOCATION OF THE WESTERN EXECUTIVE SEMINAR CENTER

Madam Chairwoman, Mr. Chairman, and Members of the
Subcommittees:

This is the second opportunity we have had to appear before
your Subcommittees to discuss the Office of Personnel Manage-
ment's (OPM) proposal to relocate the Western Executive Seminar
Center from Denver to Grand Junction, Colorado. On May 7, 1984,
at a joint hearing of the Subcommittees in Washington, D.C., we
first addressed this subject at your request. At that time, we
recommended that OPM not follow through on its proposal to relo-
cate the Center to Grand Junction in the summer of 1984. Based

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on the best information then available, we concluded that the proposal was not economically justified. The fact that more than 18 months remained on the current lease of space for the Center in Denver weighed heavily in our recommendation that consideration of any possible relocation be deferred until a time closer to the expiration of the present lease. Otherwise the Center would be obligated to pay rent on two facilities while using just one of them. We subsequently reiterated this recommendation in a report to the Director of the Office of Personnel Management (GAO/GGD-84-80; June 6, 1984). OPM acceded to this recommendation, and consideration of the relocation was deferred.

We are here today to discuss our cost analysis of a similar proposal that involves circumstances that have changed significantly since our previous cost analysis was done more than 10 months ago. In key respects, currently available data suggest a stronger economic case for relocation to Grand Junction, although we are still concerned about the cost of the 9 months left on the Denver lease.

At the end of my statement is a summary table and detailed analysis of the multi-year costs of alternatives for the Western Executive Seminar Center: (1) remaining in the present Denver location but in reduced space; and (2) transferring the Center to Grand Junction as OPM now proposes, beginning operations there on July 1, 1985. Before I explain the results of our analysis in detail, let me describe how we gathered the information on which it is based.

We interviewed OPM and General Services Administration (GSA) officials in Washington and Denver, and collected relevant documents and cost calculations from both agencies. In order to determine comparative travel costs, we asked GSA's travel management branch to calculate the lowest available airfares to Denver and Grand Junction for government travellers as of February 26, 1985, and we carefully reviewed their calculations. We did not visit Grand Junction, though we did last April, because an active procurement is being conducted and the same facilities we visited last year are still under consideration as alternative Center locations. We have considered, as has OPM, an unsolicited proposal from the Executive Tower, where the Center is now located, in order to determine future costs in the Denver location.

The cost variables that we considered in comparing the present Denver location with a Grand Junction alternative fall into four broad categories: (1) leased physical facilities for the Seminar Center's teaching program; (2) relocation costs; (3) participant expenses, including food, lodging, and round trip travel from home to the Center; and (4) teaching costs. Our current estimates for each of these key variables for fiscal years 1985, 1986, and 1987 are shown in the summary table attached to my statement. The attachment also explains in detail the assumptions and calculations that we used to make the estimates. I will briefly discuss here the major variables, pointing out how they have changed since our last testimony, and then respond to any questions you may have on particular items or estimates.

Facility Costs

The government is committed to paying the Executive Tower for the 9,707 square feet the Center now occupies through March 31, 1986, whether or not it leases space in Grand Junction in the meantime. GSA has told us that it is unlikely that another agency or outside organization will be willing to sublet this specially configured space for the 9 months that will remain on the lease if the Center departs on July 1, 1985, as proposed. Therefore, our estimates incorporate the Denver lease cost for the last 3 months of FY 1985 and the first 6 months of FY 1986 for both the Denver and Grand Junction alternatives. Because the relocation has been deferred 9 months from the original proposal, this cost of a move to Grand Junction has been reduced by half.

OPM has indicated that the Center can get by with less space than it now occupies, and its solicitation for offers in Grand Junction specified a minimum of 6,555 square feet. The management of the Executive Tower has offered to make available this amount of space, on another floor of the building, at the same cost per square foot as its current lease, beginning in April of 1986. In addition, in order to lower the square foot cost to OPM or GSA, the Executive Tower offered to provide 40 free hotel rooms per month and \$700.00 per month of additional meeting rooms free of extra charge. This offer represents an annual savings of \$24,480 and we have deducted this amount from the Denver lease costs.

GSA conducted a market survey and requested bids for suitable office space in Grand Junction. Although the procurement

process is still underway and we did not examine specific bids, GSA estimates that the square foot cost will not be more than \$8.50. We have incorporated this estimate into our cost comparison. Also, because the Denver space must be paid for in the meantime, a move to Grand Junction by July 1, 1985, would involve additional rental costs. Rental costs of an estimated \$43,669 would have to be paid for 9 months rent in Grand Junction. In addition, \$84,961 for rental costs for 9 months will have to be paid for in Denver.

We have also factored in OPM's own estimate that alteration of new space--either in Grand Junction this year or in Denver upon expiration of the present lease--would involve a one-time cost of \$12,000.

Relocation Costs

Transferring the Seminar Center to Grand Junction will involve two types of relocation costs. The least of these is for moving the Center's furniture and equipment. GSA estimated this cost to be slightly over \$8,200. The larger cost is for relocation of the nine employees of the Center, estimated to be \$134,221. This estimate is based on the Center's five professionals who have agreed to relocate as well as severance pay for those eligible who are not relocating.

If the Center remains at the Executive Tower, GSA estimates relocation costs of \$3,300. GSA estimated about \$1,500 to move furniture and equipment to another floor and about \$1,800 to install telephones.

Participants' Expenses

By far the largest cost variable involved in the Center is the food, lodging, and travel for participants in the Center's training programs. This is also the element that has undergone the most change since our cost analysis last year.

Under the pressure of competition and declining economic activity, particularly in Grand Junction, projected costs of food and lodging have been reduced substantially from previous estimates. We understand that OPM is now reviewing bids. We asked OPM for access to these bids in order to evaluate them in our cost analysis, but OPM has not made them available to us. Nevertheless, in a similar solicitation for bids last June, OPM received two offers, one for \$37.70 per participant per day, and one for \$49.75 per participant per day. We have used the low bid of \$37.70 in our calculations of costs in Grand Junction.

For Denver, we used a written proposal from the management of the Executive Tower Inn for a firm contract for \$51.00 per day per participant. This represents a reduction from the current contract of \$57.45 per day per participant and is based on the actual meals consumed at the hotel from August to December 1984.

The number of trainees scheduled to attend the Seminar Center this fiscal year is 1,363. Each course lasts 11 days. On an annual basis, our calculations result in a difference for food and lodging costs of \$200,000 in Grand Junction's favor, based on the fact that Grand Junction's projected daily costs

are about 26 percent less than Denver's. An independent semi-annual survey of comparative travel costs conducted under contract for GSA found that food and lodging costs in Grand Junction were 44 percent less than comparable costs in Denver, in November 1984.

One further word on food and lodging. We understand that OPM plans to negotiate with potential contractors in Grand Junction to pay for only meals eaten during the entire 11 day period. If Grand Junction's food and lodging cost estimates were reduced in the same proportion as Denver's, daily costs could be reduced to \$33.48. OPM is also negotiating prices relevant to the option to extend the contract over a 41 month period. We believe these costs must be factored into the final cost comparison before a decision to move is made.

Finally, we should point out that our estimate does not include potential Grand Junction costs to transport participants from the selected hotel to the training facility, although we believe such arrangements will need to be made. The distance between a hotel and training center could be almost a mile and we do not think it reasonable to expect participants to walk that distance possibly four times a day, regardless of weather conditions. Thus, this potential cost also needs to be considered by OPM in its final decision.

Air-travel costs for participants are borne by their employing agencies rather than by OPM, but we believe they should be considered in comparing alternative locations for the Center since these are costs to the government. We determined the points of origin of all participants in the seminars in FY

1984, and asked GSA to calculate the lowest airfares available to government travelers on the days when seminars begin and end from their cities of departure to both Denver and Grand Junction. We then adjusted this figure to reflect the increase in FY 1985 participants to 1,363. Since almost all travel to Grand Junction is routed through Denver, this calculation resulted in an annual difference of \$95,000 in Denver's favor.

It should be noted that this factor is particularly volatile, since air fares change very frequently and to some extent vary by the season. Our figures are current as of February 26, 1985, when many winter incentive fares were in effect. At that time an unrestricted \$78.00 roundtrip fare between Denver and Grand Junction was available. Already some fares have changed. For example, one airline has raised minimum round trip fares from Denver to Grand Junction from \$78.00 to \$100.00 with availability only on selected flights. Another airline still offers a \$78.00 round trip fare, but travel is limited to Mondays through Thursdays. When we earlier calculated travel costs, as of May 2, 1984, the minimum roundtrip Denver to Grand Junction fare was \$148.00.

Faculty

We assumed that salaries for the Center's faculty and staff would be identical whether the staff is located in Denver or Grand Junction and consequently have not included this fixed cost in our cost comparison. A notable variable, however, is associated with the Center's customary use of visiting lecturers to address the participants on various management topics. During FY 1984, 135 speakers were scheduled to make 246 appearances

at the Center. About three quarters of these appearances were made by Denver residents, including managers from other federal agencies and the private sector, and faculty from local universities, or by visitors from Washington, D.C. Because these relationships have been established over a long period of time, and because OPM has made no effort as yet to determine the availability of qualified lecturers from the Grand Junction area, we have assumed that the educational program would draw on the same group of lecturers it has been using in Denver. This leads us to the calculation that a net increase of \$17,318 would be required for lecturer transportation for Grand Junction, based on GSA estimates. We also estimated food and lodging costs of speakers to be \$14,931 in Grand Junction and \$12,554 in Denver.

Conclusion

In summary, Madam Chairwoman and Mr. Chairman, our current cost estimates are not, in the long run, unfavorable to a relocation of the Western Executive Seminar Center to Grand Junction, as proposed by OPM. While substantial relocation costs exceed Grand Junction's cost advantage by \$154,482 in the first year, the lower costs of leased space for the Center and especially lower costs for food and lodging in Grand Junction offset higher airfares for participants and speakers to Grand Junction in the second and subsequent years. Ultimately, our current calculations show that costs of operating the Center in Denver exceed those of Grand Junction by \$80,351 in FY 1987.

We must, however, heavily qualify these calculations. The two most important variables--food and lodging expenses and

airfares--are both highly volatile. Under the subsistence and tariff schedules that were current only 10 months ago, we reported to you that Denver had a long-term cost advantage of about \$80,000 per year over Grand Junction. Since airfares change frequently under airline deregulation, and room and board contracts are typically for a short term relative to real estate leases, there is no assurance that the rates we are using today will remain constant.

We should also repeat that OPM's current proposal to transfer the Center by July 1, 1985, involves additional rental costs that could be avoided if the transfer were deferred until March 31, 1986. Over this 9 month period, OPM would have to pay \$43,669 rent for the Grand Junction facility while also paying \$84,961 for the Denver facility.

In view of the volatility of key cost variables, we continue to hold the view we expressed in our testimony last May--that factors other than cost estimates should be carefully considered before a final decision is made to abandon an established facility. These factors include:

- the track record and proven relationship of the Seminar Center with the present contractor in Denver. Based upon our review of past evaluations by OPM and trainees at the present Center, and our discussions with GSA, the relationship has been excellent;
- the value of the Center's relationship with the University of Colorado's Graduate School of Public Affairs, and

with a cadre of lecturers in the local area who regularly make important contributions to the educational program;

--the importance in the educational program of field trips to expose federal managers to a variety of management situations; and

--the merits of co-location with other federal installations in a federal regional center like Denver, including the convenience to federal employees who combine trips to the Center with other federal business.

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That concludes my prepared statement, Madam Chairwoman and Mr. Chairman. My colleagues and I are prepared to respond to any questions you may have.

COMPARING WESTERN EXECUTIVE SEMINAR CENTER COSTS
IN DENVER AND GRAND JUNCTION, COLORADO - MARCH 1985

Fourth Quarter

Fiscal Year 1985 Cost Estimates Fiscal Year 1986 Cost Estimates Fiscal Year 1987 Cost Estimates

	Grand Junction Denver	Grand Junction Denver	Grand Junction Denver
Grand Junction lease	\$14,556	\$58,225	-
Denver lease	28,320	95,204	-
Grand Junction alteration	12,000	-	-
Executive Tower conversion	-	12,000	-
Executive Tower allowance	-6,120	-24,480	-24,480
Subtotal	54,876	82,724	54,295
Relocation:			
Furniture and equipment	8,245	3,300	
Personnel relocation costs/severance	134,221		
Pay			
Subtotal	142,466	3,300	
Participants:			
Food and lodging	141,309	764,643	764,643
Airfare	100,919	308,246	308,246
Subtotal	242,228	1,072,889	1,072,889
Faculty:			
Food and lodging	3,733	12,554	12,554
Airfare	15,136	43,227	43,227
Subtotal	18,869	55,781	55,781
Totals	458,439	\$1,214,694	\$1,182,965
			\$80,351
			\$55,439
			\$154,482

DETAILED EXPLANATION OF COST ESTIMATES

ASSOCIATED WITH MOVING THE

WESTERN EXECUTIVE SEMINAR CENTER FROM

DENVER TO GRAND JUNCTION, COLORADO

There are four major categories of costs associated with the proposed transfer of the Western Executive Seminar Center (WESC) to Grand Junction, Colorado. The sources, assumptions, and calculations used to arrive at our estimates are set forth below and in a Summary Table covering fiscal years 1985, 1986, and 1987.

FACILITY

WESC is located at the Executive Tower in downtown Denver. Under the current lease, which expires on March 31, 1986, the Office of Personnel Management (OPM) occupies 9,707 square feet at \$11.67 per square foot. The annual rental for this area is \$113,281. If the Center is relocated during fiscal year 1985, the Government is liable for payment of the lease during the remainder of that fiscal year and the first six months of fiscal year 1986, unless it is occupied by another tenant. The General Services Administration (GSA) has told us and OPM that it is unlikely that another agency would be interested in a short-term use of this special-purpose space. GSA required a commitment from OPM to fund all costs for the existing facility for the duration of the lease.

In considering a move to Grand Junction, OPM revised its estimate of the area necessary to fulfill the training mission and anticipates leasing between 6,555 and 6,880 square feet rather than retaining the space it is now using in Denver.

During the course of our review we learned that the Executive Tower is willing to provide alternative space, to meet this smaller requirement, at a cost of \$11.50 per square foot upon the expiration of the current lease. In addition, either moving to Grand Junction or accepting lesser space at the Executive Tower would involve certain conversion/alteration costs. These facts were incorporated in our facility cost estimates as follows:

1. Grand Junction Lease

GSA conducted a market survey in April, 1984, and determined that a reasonable estimate in Grand Junction is \$8.50 per square foot for a fully serviced lease with standard tenant finish. We based our cost estimates on GSA's estimate of \$8.50 per square foot, for a lease of 6,850 square feet. Our estimate of \$58,225 per year applies to fiscal years 1986 and 1987 with the prorated amount for FY85 at \$14,556.

2. Denver Lease

Because GSA believes this space, if vacated by OPM before the lease expires, would be unlikely to attract another tenant for the remaining 9 months of the contract, we added the contract cost of \$28,320 (\$113,281 divided by four) to the first year's cost of a move to Grand Junction. We also added one half of the annual lease cost of \$113,281 (\$56,641) to the second year's cost of a move to Grand Junction to cover the final six months rent prior to the contract's expiration.

For Denver, the facility cost for the last 3 months of fiscal year 1985 would be \$27,908. This calculation is based on the 9,707 square feet at the cost of \$11.50, divided by 4. We used a cost of \$11.50 rather than the existing \$11.67 because

the Executive Tower indicated they would change this lease cost. The second year's cost represents \$55,816 (27,908 x 2 quarters) plus \$39,388, or \$95,204. The \$39,388 figure is based on the offered prospect of reducing the total space available to OPM in Denver to 6,850 square feet (6,850 square feet x \$11.50 per square foot divided by 6 months). We estimated the third year's lease at the Executive Tower as \$78,775 (6,850 square feet x \$11.50 = \$78,775).

In order to lower the lease cost to OPM and/or GSA, the Executive Tower offered to provide 40 free hotel rooms per month as well as additional meeting rooms, also free of charge. This represents an annual savings of \$24,480 which we included as an Executive Tower allowance .

3. Grand Junction Alteration

OPM estimated possible one-time alteration costs of \$12,000 in Grand Junction for improvement and such needs as specially placed electrical outlets. We used OPM's estimate as an additional cost in the first year's estimates for Grand Junction.

4. Executive Tower Conversion

In our analysis of second year costs we included an estimated conversion cost of \$12,000. The Executive Tower management indicated that in providing reduced space to OPM after the current contract's expiration, it would likely move the center to a different floor in the building. Because such a move could involve certain conversion costs we included a \$12,000 estimate, which is the figure OPM applied to its estimated cost for improvements at a new facility in Grand Junction.

PARTICIPANTS

We estimated participant costs for (1) food and lodging and (2) travel expenses on the basis of 1,363 participants in fiscal year 1985. This estimate is based upon 1,405 participant slots actually purchased by federal agencies, less a shortfall of 42 participants for potential "no shows" (based on OPM's fiscal year 1984 and 1985 experiences to date on "no shows" of about 3 percent). In each case, we prorated annualized costs for the three months of anticipated operation in fiscal year 1985 (July-September).

1. Food and lodging

The current OPM contract with the Executive Tower was revised in August 1984 to provide food and lodging at a cost of \$57.45 per day per participant. Under the contract the Executive Tower is reimbursed only for the meals participants consumed at the hotel. On February 14, 1985, the Executive Tower notified OPM of its offer of a firm contract for \$51.00 per participant per day, based upon the actual payments OPM made for meals consumed at the hotel from August to December 1984.

Using the \$51.00 figure in our analysis, we computed an annual food and lodging cost at the Executive Tower of \$764,643. The prorated share for fiscal year 1985 would be \$191,161 (\$764,643 divided by four).

According to OPM records bids of \$37.70 and \$49.75 were received during last year's procurement. Since OPM would not provide us with information on the current proposals received, we considered the \$37.70 figure in our estimate. Since each seminar lasts 11 days, we estimated food and lodging for Grand

Junction at \$565,236 per year ($\$37.70 \times 1,363$ participants \times 11 days). The prorated costs for fiscal year 1985 would be \$141,309 ($\$565,236$ divided by four). It should be noted that costs could be less if OPM were able to negotiate lower costs based upon actual meals paid for, similar to the Denver contract. If this cost was reduced proportionately to that in Denver, per participant per day costs could be reduced to \$33.48. Under this assumption, yearly costs would be \$501,966 and the prorated costs for fiscal year 1985 would be \$125,492 ($\$501,966$ divided by 4).

As in our previous analysis, we did not include an inflation factor in either the Denver or Grand Junction calculations because we do not have any reason to support different inflation rates for either city.

2. Travel

To estimate travel costs, we determined the points of origin of the Center's 1,227 fiscal year 1984 participants. We then asked GSA to provide us with the lowest airfares available to government travelers on February 26, 1985, for each of the cities of origin. We set the following parameters on participants' air travel

--participants must travel on a Monday arriving in either Denver or Grand Junction by 5:00 pm, and

--participants must leave no earlier than 1:00 pm on the Friday of the following week.

As a result of GSA's work, participant travel costs to Grand Junction and Denver were \$363,673 and \$277,699 respectively. We increased these numbers by the anticipated 11 percent increase in participants to 1,363 for fiscal year 1985 to arrive at our

estimate of \$403,677 to Grand Junction and \$308,246 to Denver. The prorated fiscal year 1985 costs were \$110,919 to Grand Junction and \$77,062 to Denver.

FACULTY

Since seminar staff salaries and benefits would be independent of location, we did not include these in our analysis. The Seminar Center continues to rely on outside speakers to lecture and lead discussions in its management seminars. During FY 1984, 135 different speakers were scheduled to make 246 appearances at the centers. Of the 246 speaker appearances at the center, 110 or 45 percent were from the Washington D.C. area, 65 or 26 percent were from the Denver-Colorado Springs area, and 71 or 29 percent were from other locations. We based our estimates on the 246 speaker appearances. We did not include an additional 41 individuals who spoke on field trips because those same field trips would not be available in Grand Junction.

We determined the points of origin for each of the speakers. GSA provided us with the lowest airfare available for official government travel (assuming the government would pay for the speakers' travel) and we calculated the actual days of food and lodging needed based on the times the speakers were due to appear. We assumed food and lodging costs per day for speakers were the same as for participants.

OPM could not provide us with any support for their conclusion that half the Denver speakers could be substituted with Grand Junction speakers if the Center is moved. We assumed for our analysis that all Denver area speakers would travel to Grand Junction and that Grand Junction would provide all field trip speakers. Based upon our analysis of the scheduled appearances during FY 1984, we determined speakers in Denver would spend an average of 1.36 days per appearance and speakers in Grand Junction would spend an average of 1.61 days per appearance.

We estimated food and lodging costs for speakers to be \$14,931 a year in Grand Junction (246 x 1.61 x \$37.70) and \$12,554 a year in Denver (181 x 1.36 x \$51.00). The FY 1985 pro-rated costs would be \$3,733 and \$3,139 respectively. Travel costs based on actual airfare obtained by GSA to Grand Junction are estimated at \$60,545 per year while Denver travel costs are estimated at \$43,227 per year. The FY 85 respective pro-rated costs would be \$15,136 and \$10,807.

RELOCATION COSTS

Relocation costs include the physical movement of WESC's furniture and equipment as well as estimated costs relating to the relocation of staff members and families.

1. Furniture and Equipment

In May 1984 GSA estimated that based on a survey it conducted of the Denver facility the cost to move the furniture and equipment to Grand Junction would be about \$5,300 and the cost to move and install telephones would be about \$1,800. GSA also estimated that the cost to move the furniture and equipment to reduced space on a different floor at the Denver facility could be \$1,500 and the cost to move and install telephones would be about \$1,800.

To obtain estimates for this category we asked GSA to review and update, if necessary, their earlier estimates. In response to our request GSA estimated a cost of about \$6,445 to move the furniture and equipment to Grand Junction and a cost of about \$1,800 to move and install telephones. GSA also estimated that the cost to move furniture and equipment to a different floor in the Denver facility would still be about \$1,500 and the cost to move and install telephones at about \$1,800. GSA told us their revised estimates were based on higher shipping rates.

2. Personnel Relocation Costs

WESC currently employs six professional and three administrative staff members. OPM believes five professional staff members would choose to move to Grand Junction, while one professional and the three administrative staff members would decline to transfer in connection with their jobs. All four staff members who decline to transfer are eligible for severance payments. Relocation and severance expenses are applicable to the first year's cost of a Grand Junction move.

To obtain our estimate for relocation expenses we asked GSA to review its May 1984 estimate and provide us with the most current relocation allowances. We then verified the individual circumstances--married or single, homeowner or renter--of the five professionals who are willing to move. Using GSA's updated allowance data, we estimated relocation expenses to be \$90,440 and applicable severance pay for the staff not willing to relocate to be \$43,781. The combined total for location and severance costs is estimated to be \$134,221.