



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

21580

NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

JUNE 24, 1985

B-210119

General Thomas M. Ryan  
Commander, Military  
Airlift Command



127299

Dear General Ryan:

Subject: Operating Chartered Flights from Commercial  
Airports has not Reduced Transportation Costs  
(GAO/NSIAD-85-60)

In December 1978, the Defense Audit Service reported that millions of dollars could be saved each year by closing some Military Airlift Command (MAC) passenger terminals and by reducing operations at others. It concluded that the MAC terminals were not an integral part of contingency operations and that MAC could handle most Department of Defense (DOD) needs by operating facilities at commercial airports. The concept was approved by the Congress, and the shift to commercial terminals began in October 1979.

We reviewed the move of MAC chartered international flights and found that, except at one location, savings expected by moving have not materialized. In fact, in fiscal year 1982, the move cost DOD an estimated \$1.5 million more because MAC continued to operate military passenger terminals simultaneously with its terminal operations at commercial airports. Instead of closing or scaling down operations at military terminals, as envisioned in the shift to commercial terminals, they were maintained for readiness purposes.

Operating from both commercial and military facilities at the same time has resulted in additional operating costs. Since the Air Force maintained that the military terminals were needed for readiness purposes, our work was designed to determine if it would be advantageous from a cost perspective to close the commercial operations and return charter flights to military terminals. This is the position we took in a draft of this report released to DOD for comment.

In commenting on our report, DOD officials disagreed with most of the findings and recommendations, particularly the cost figures. Their comments and our evaluation are discussed in the enclosure.

(943521)

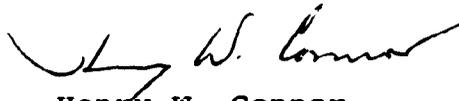
032450 / 127299

In our opinion, the issues DOD raised do not alter the soundness of our position--that it is not cost effective to operate both MAC terminals and commercial terminals. Although our work suggested closing the commercial operations, the Defense Audit Service position that MAC terminals be closed or scaled down may also be reasonable. In any event, dual operations will result in additional costs to the government. If DOD believes that the commercial terminals are essential and significantly enhance the service to its members, then the military terminal operations should be scaled down as recommended by Defense Audit Service. However, if military terminals must be staffed at current levels for readiness purposes--a point disputed by Defense Audit Service--then commercial operations should be reduced.

We would appreciate being advised of the actions you plan to take regarding this situation.

We are sending copies of this report to the Secretary of Defense and to the Secretary of the Air Force.

Sincerely yours,



Henry W. Connor  
Senior Associate Director

Enclosure

OPERATING CHARTERED FLIGHTS  
FROM COMMERCIAL AIRPORTS HAS NOT REDUCED  
TRANSPORTATION COSTS

INTRODUCTION

As the Department of Defense (DOD) single manager for airlift, the Military Airlift Command (MAC) provides support for the military services. MAC's global network of cargo and passenger service covers most areas of the world where the United States has major overseas bases or provides logistical support to Allied countries.

MAC's primary mission is to provide the Joint Chiefs of Staff with a strategic airlift force for immediate use in national emergencies. To carry out this mission, MAC has a large fleet of military transport aircraft supplemented with commercial charters. This report discusses the almost 1,000 annual round trip international passenger flights chartered by MAC from commercial air carriers and more specifically the air terminals in the continental United States (CONUS) through which these flights operate.

Before October 1979, all chartered international flights originated and terminated at the following points in CONUS: Charleston Air Force Base (AFB), South Carolina, the southeast gateway; McGuire AFB, New Jersey, and Philadelphia International Airport, the northeast gateways; McChord AFB, Washington, and Norton and Travis AFBs, California, which served the West Coast. Operations at Philadelphia--the only commercial location--were established as a convenience to the Navy in 1975.

There was a consensus among MAC officials that military terminals were desirable because they provided

- greater convenience and lower cost services, such as billeting, messing, and financial assistance to travelers;
- a military environment to avoid some of the frustrations travelers may encounter at commercial airports;
- security of movement associated with operating from a military base;
- a training facility for active duty and reserve personnel to acquire and retain skills in processing passengers; and
- surety of operation during peacetime and war.

In addition, Air Force officials expressed concern about aircraft congestion at commercial airports.

In December 1978, the Defense Audit Service (DAS) reported that DOD could save more than \$29 million at home and abroad by (1) closing some military passenger terminals and transferring the work load to commercial facilities and (2) reducing the operations at other military terminals. MAC officials, however, contended that continued operation of the aerial ports was necessary to maintain a trained work force to react in contingencies. The DAS report countered this argument by saying that MAC plans indicated that locations other than MAC terminals would be used for mobilizing and moving troops and that passenger terminals would not be required for processing troops. Air-lift control personnel would be dispatched to predetermined locations to handle the necessary transportation requirements.

Anticipating that the Congress would support the recommendations by DAS, MAC closed its passenger terminal at Norton AFB and transferred the chartered international flight operation to nearby Los Angeles International Airport in October 1979.

Despite strong opposition by the Air Force, the Congress, in approving the DOD appropriation for 1980, provided funds and directed the Air Force to proceed with the phasedown of military air passenger terminals which were underused or to establish facilities at commercial airports when this proved cost effective. In carrying out the directive, MAC, in January 1981, opened facilities for chartered flights at the commercial airport in St. Louis and later at Oakland. However, to ensure rapid deployment of forces in contingencies, readiness terminal operations were approved by DOD and passenger operations were resumed at MAC aerial ports in March 1981.

Today, MAC manages passenger terminal operations for chartered international flights at five commercial airports in CONUS--Los Angeles, Oakland, St. Louis, Philadelphia, and Charleston.

#### OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether the transfer of chartered international flight operations from MAC aerial ports to commercial airports in CONUS had produced the savings envisioned by the Congress and others.

We performed our review at Headquarters, MAC, Scott AFB, Illinois; Headquarters, Twenty-First Air Force, McGuire AFB; Twenty-Second Air Force, Travis AFB; Charleston, McGuire, Norton, and Travis AFBs; and MAC's facilities within the Los Angeles, Oakland, Philadelphia, and St. Louis commercial airports. In addition, we talked with officials at Headquarters, Military Traffic Management Command (MTMC), Washington, D.C. We started our fieldwork in December 1982 and completed it in September 1984.

Our study entailed reviewing and analyzing passenger terminal operating costs for fiscal years 1981 and 1982 to compare costs of terminal operations at commercial locations with those at military aerial ports. We reviewed correspondence and MAC histories to reconstruct the sequence of events that preceded the move from military aerial ports to commercial airports. We also reviewed reports and studies, such as the DAS audit report on MAC passenger terminals, a study called SABER PAX done by Air Force Headquarters, the MAC Air Passenger Terminal System Study, the MTMC review of passenger movement between CONUS and the Pacific area, and other studies and audits. We talked with passenger terminal operations officials to obtain their views and visited each terminal location in CONUS to observe passenger processing.

Our review was done in accordance with generally accepted government auditing standards.

#### DUAL OPERATION INCREASED DOD'S TRANSPORTATION COSTS

Since operations began in Philadelphia in 1975, MAC has been managing chartered flight operations at commercial airport locations in CONUS. In March 1981, the Air Force established readiness air passenger terminals at MAC aerial ports. Instead of reducing overall MAC passenger terminal operations, operations were, in effect, expanded.

The resumption of operations at MAC aerial ports evolved from a MAC study which addressed concerns that moving to commercial airports would degrade MAC's readiness capability, i.e., its ability to mobilize quickly for war. Another consideration was a need for MAC to continue using its passenger-carrying capability to transport duty and space-available passengers as a by-product of operating its C-5 and C-141 aircraft from military bases--although primarily cargo aircraft, the C-5 and C-141 have some passenger seats.

MAC defines a readiness terminal as one which operates in a portion of an existing passenger terminal and provides peacetime

support to all travelers. The remainder of the terminal is held in a standby status and is used for mobility exercises. According to MAC, the use of readiness terminals to train Active and Reserve personnel also enhances its wartime capability.

By establishing readiness terminals, the Air Force believed it could ensure the readiness capability to support the most demanding requirements of moving people, which it feared would be degraded if it relied totally on commercial airports for passenger operations.

However, operating readiness terminals simultaneously with operations at nearby commercial airport terminals is not cost effective. In fiscal year 1982, DOD incurred costs estimated at \$1.5 million to provide duplicate services. Costs included space, equipment, supplies, and station handling charges. Station handling charges are paid to airport authorities for use of commercial airport facilities. Charges include fees for landing, aircraft servicing, security, baggage handling, customs, etc.

The following table shows the details of our estimate of costs incurred at three commercial terminals. St. Louis was not included in the table because, according to an Air Force Audit Agency report, that operation was cost effective, and Charleston was excluded because it just opened in April 1985.

Cost of Operating Commercial Terminals FY 1982

<u>Location</u>	<u>Space, equipment, supplies</u>	<u>Station handling charges</u>	<u>Civilian personnel</u>	<u>Total</u>
Los Angeles	\$ 53,207	\$ 750,498	\$ -	\$ 803,705
Oakland	180,273	516,359	22,569	719,201
Philadelphia	<u>13,197</u>	<u>a</u>	<u>-</u>	<u>13,197</u>
Total	<u>\$246,677</u>	<u>\$1,266,857</u>	<u>\$22,569</u>	<u>\$1,536,103</u>

<sup>a</sup>Station handling charges could not be determined.

A detailed discussion of each of the moves that resulted in simultaneous operations of military terminals and nearby commercial terminals and the operation at St. Louis follows.

Move from Norton AFB to Los Angeles International Airport

This move took place in October 1979, before the Congress directed the use of commercial facilities that proved cost effective. Savings estimated at \$942,000 were to accrue by closing the Norton passenger terminal. However, in January 1981, it was reopened at MAC's direction and staffed with nine passenger specialists. In March 1981, Norton AFB was approved as a readiness air passenger terminal.

As of April 1983, 29 passenger specialists were processing travelers at Norton. This total was expected to increase to 43 over the next 5 years, according to MAC officials at Travis Air Force Base. At the Los Angeles terminal, personnel increased from 10 in fiscal year 1981 to 20 the following year.

Before Los Angeles opened, the volume of passengers (duty and nonduty) processed at Norton in fiscal year 1979 was 143,451. Combined traffic processed at Norton and Los Angeles in fiscal year 1982 was 169,006. The cost of operations at Norton in 1979 was \$657,800. In 1982, the combined cost, including military personnel costs, was \$1,353,025. As shown in the table on page 4, we estimate that the costs to operate chartered flights from Los Angeles in fiscal year 1982 were \$803,705, including station handling charges of \$750,498.

The cost to process passengers at Los Angeles is high compared with that at Norton (\$13.43 per passenger vs. \$2.57 per passenger at Norton). These per capita costs include both military and civilian pay.

Transportation officials at Norton told us the Los Angeles work load could be handled at Norton without difficulty.

Move from Travis AFB to Oakland Airport

This move was made in January 1982 in accordance with the congressional intent to have MAC relocate where cost effective. However, no cost-benefit analysis was done to justify the move. We estimate that in fiscal year 1982, costs at Oakland totaled \$719,201, including station handling charges of \$516,359, which are not paid at military airports.

In fiscal year 1981, 372,075 travelers were processed by 69 passenger specialists at Travis AFB. In 1982, the volume of

traffic decreased to 242,913, but the number of passenger specialists increased to 85 after operations began at Oakland Airport. Oakland processed 220,581 travelers with 17 passenger specialists during fiscal year 1982. An average of five flights per week departed from Oakland Airport. Transportation officials at Travis AFB told us that terminal facilities there could accommodate the Oakland flights. During fiscal year 1982, Travis AFB passenger specialists processed an average of 52 departures per week.

#### Operations at Philadelphia International Airport

Chartered flights began operating from here in 1975 to provide passenger service to the Navy in the Mediterranean Sea area. MAC operations at Philadelphia are administered by a contractor that provides services consisting of processing passengers, security checks, handling baggage, and loading and unloading. MAC personnel provide assistance to travelers, see that contractor personnel are complying with the terms of their contracts, and perform other administrative functions.

During fiscal year 1981, 3 passenger specialists were at the airport to oversee the processing of 49,590 travelers. In 1982, a total of 6 were assigned to handle 46,788 passengers. The cost for space, equipment, and supplies in Philadelphia in fiscal year 1982 was \$13,197. This is not the total cost of operations at Philadelphia because it does not include station handling charges. Station handling charges are included in the MAC contracted rate per passenger mile paid to commercial air carriers carrying military personnel. We could not determine the station handling charges because air carriers report operating costs to MAC on a systemwide basis and not by location. However, some idea of the magnitude of such charges can be obtained by looking at station handling charges at other terminals in fiscal year 1982--\$516,359 for handling five flights a week at Oakland and \$750,498 for handling two or three flights a week at Los Angeles.

According to transportation officials at nearby McGuire AFB, the terminal there can accommodate the passengers being processed at Philadelphia.

After completion of our fieldwork, the Air Force announced that it was transferring the remainder of its passenger flights from McGuire to Philadelphia--up to then only about half had been transferred. As of October 1, 1984, MAC began operating about seven flights per week instead of three at Philadelphia.

If McGuire staffing continues at its present level and all passenger flights are transferred to Philadelphia, costs to DOD will increase significantly.

#### Move to Charleston Municipal Airport

At the time of our review the airfield in Charleston was used by the military and the civilian sectors. MAC operated its own passenger terminal just across the airstrip, about a 6-mile drive from the civilian terminal. Military members arriving at the Charleston Municipal Airport paid a one-way limousine fare of \$4.50 to meet departing MAC chartered flights at the Charleston AFB passenger terminal. In fiscal year 1982, 107 passenger specialists processed 275,662 travelers through the Charleston terminal facility.

MAC chartered flights have now been transferred to a new civilian terminal. The new terminal is about 3 miles from the present MAC terminal facility. MAC justified the move on the basis of projected annual savings of about \$400,000 by avoiding ground transportation costs between the civilian and MAC passenger terminals.

We believe the basis used to compute the annual savings is not completely valid. MAC assumed that travelers would arrive at the civilian airport by way of government-provided transportation and then take a taxi (for which the government would pay) to the military terminal. Actually, more than 90 percent of travelers going overseas elect a monetary allowance in lieu of transportation. The allowance permits travelers to claim a designated rate per mile to the port of embarkation for themselves and dependents. There is no requirement that a specific mode of travel be used. In other words, travelers are entitled to the allowance whether they drive or walk. The acceptance of the allowance by most travelers suggests that few ground transportation costs would be saved by DOD since the allowance would be paid anyway. Travelers, not the government, would have to pay limousine fares from the civilian airport to the military terminal. Using 1982 cost data, we estimate it would cost about the same to operate from the existing military terminal or the civilian terminal.

#### Operations at St. Louis International Airport are cost effective

MAC chartered flights began operating from here in January 1981. Unlike other commercial terminals MAC uses, St.

Louis International is not located near any MAC aerial port readiness terminal. The nearest terminals are on the East and West Coasts.

According to a recent audit completed by the Air Force Audit Agency, DOD saved an estimated \$2.3 million in passenger transportation costs on outbound flights by operating at St. Louis International during the 6 months ended December 31, 1981. Savings were attributed to passenger travel on less expensive MAC chartered flights closer to inland points of origin or destination, rather than travel on higher cost commercial service to MAC terminals on the East or West Coast. According to MAC transportation officials, savings continue with the operation of an inland gateway at St. Louis International Airport. Operating costs in fiscal year 1982 were \$572,028, not including military personnel costs.

#### AGENCY COMMENTS AND GAO EVALUATION

In its official oral comments on a draft of this report, DOD strongly disagreed with the majority of our findings and recommendations. It said our report contained significant omissions and errors in auditable accounting data, as well as oversights in the more subjective areas of service and convenience to DOD travelers. According to DOD, the draft report tried to document added costs resulting from the move to commercial airports, but did not recognize the benefits of the move.

DOD cited the apparent lower cost of buying jet fuel at commercial facilities as a benefit overlooked by us. DOD estimated that carriers would pay millions of dollars more if they were forced to operate from military terminals and pay the higher charge for military jet fuel.

The price paid for jet fuel at MAC terminals is a worldwide average which is paid by both military and civilian customers. The price is constant throughout the year. The selling price does not represent what the government actually paid for the fuel at a particular location. The price charged at local high volume activities is the same as the price charged at some remote station where the fuel may have required long transportation hauls and extensive handling.

Considering the volume of fuel purchased by the military, the actual cost to the government at major MAC terminals in CONUS should not be any more than that paid by commercial carriers. In fact, the government's cost may even be less. For example, carriers paid between 88 and 92 cents a gallon for jet fuel at the commercial airport at Oakland during recent months.

At nearby Travis AFB, the government's cost for jet fuel during fiscal year 1984 was only about 79 cents a gallon, although military and civilian customers were charged more than a dollar a gallon by the base.

The higher price charged customers at major military terminals, therefore, helps defray costs of fuel at other activities and is a direct benefit to the government. So when MAC charges commercial carriers a rate higher than the government paid, any proceeds above government cost would be used to offset added carrier cost, which are eventually passed on to MAC. In other words, the fuel price differential offsets the carrier charges and should have no impact on any decision to move or retain military operations at MAC terminals.

DOD also maintained that our estimate of annual savings was inflated because we included \$86,000 in start-up costs at Oakland International Airport. DOD says this is nonrecurring and should not be included.

The costs we used were provided by MAC. We did not make any revisions or verification. The \$86,000 could have been in the category of start-up costs. Even so, the amount at just one terminal would not influence any decision on which type terminal is most advantageous for handling charter flights.

DOD further said that our draft report failed to consider added costs to DOD which would arise when members have further to drive to drop their privately owned vehicles (POVs) for shipment. DOD calculates that the added mileage cost using Norton instead of Los Angeles for POVs going through Port Hueneme, California, would be \$8.58 per vehicle. The difference between using Travis and Oakland, according to DOD, would be \$4.68.

DOD did not try to establish the significance of this factor, i.e., how many POVs were actually involved. In checking, we found that only 12 POVs moved through Port Hueneme in fiscal year 1983 and only 3 during the first 7 months of fiscal year 1984.

About 12,000 POVs transit Oakland each year, so the amount involved here would be less than \$60,000 (12,000 X \$4.68). However, the shorter mileage between McGuire Air Force Base and the major POV port on the East Coast--Bayonne--would more than offset this amount, considering the higher volume of POVs transiting Bayonne. According to DOD data, about 25,000 POVs move through Bayonne each year.

Another point of disagreement raised by DOD concerned staffing authorizations. According to DOD, the aggregate staffing authorizations at the five military aerial ports have been reduced from 370 to 312.

The aggregate figures are misleading without considering the authorizations added at commercial airports. For example, the present authorization for Norton AFB and Los Angeles Airport is 50 (29 at Norton and 21 at Los Angeles). There were 48 authorized positions at Norton before the move to Los Angeles.

At Travis AFB, the figure of 68 current positions cited by DOD is correct, although DOD acknowledged that the level had reached 85, as stated in our report. In any event, when the 17 positions at Oakland are added, the total is 85.

The Defense Audit Service, in its 1978 report, recommended authorization of 10 passenger processing staff each at Los Angeles and Oakland, 39 at Travis AFB, and 7 at Norton AFB, for a total of 66. The total present authorization for these locations is 135.

In our draft report, we cited a MAC study which projected annual savings of \$400,000 by avoiding ground transportation between the civilian and military terminals at Charleston. DOD disputed this figure and said that the study was a comparison between Atlanta International Airport and Charleston and had nothing to do with the cost differential between Charleston locations. However, our reexamination of the subject study showed that our initial reporting was accurate and the \$400,000 figure was not related to the Atlanta International Airport.

In summary, DOD stated that the use of commercial gateways, while military terminals are retained in a state of readiness, remained appropriate. DOD believed it important to provide convenient service to the DOD traveler and felt that use of commercial gateways facilitated this.

We continue to believe that having parallel operations at military and commercial airports is not cost effective.