



United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-258948

November 2, 1994

The Honorable Don Nickles
United States Senate

Dear Senator Nickles:

This correspondence responds to your request that we review and comment on the Federal Highway Administration's (FHWA) plan to move its H. David Howard Motor Carrier Academy from its current location at the Transportation Safety Institute (TSI) in Oklahoma City to a new location in Northern Virginia. FHWA intends to move the Academy in January 1995. FHWA officials stated that the proposed move will foster better management control, improve curriculum development, and save the agency over \$300,000 during the first 3 years following the move. TSI stated that the relocation does not conform with the renewed emphasis on intermodalism in federal transportation policy and would cost FHWA approximately \$1.6 million over the 3-year period.

In brief, we found that the cost of the proposed relocation is not certain and could range, over the next 3 years, between saving FHWA as much as \$8,600 or costing the agency as much as \$931,400. The difference primarily depends on FHWA's ability to secure and retain a hotel contract that reduces the travel costs for Academy participants significantly below the official government per diem rate for the Washington, D.C., area. However, both FHWA and TSI officials stated that the decision to relocate the Academy must also include important nonfinancial issues--better management control, according to FHWA, and sufficient emphasis on intermodalism, according to TSI. We agree that these issues are important and should be weighed in FHWA's final decision about relocating.

The following is a brief description of the background of this issue, a summary of the agencies' cost estimates, the results of our cost analysis, and an overview of the qualitative issues that FHWA and the TSI believe weigh on the final decision about relocating.

GAO/RCED-95-43R, Motor Carrier Academy

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BACKGROUND

The H. David Howard Motor Carrier Academy provides professional training to federal and state officials responsible for motor carrier safety. The Academy was established in 1971 when the Department of Transportation created the Transportation Safety Institute in Oklahoma City. TSI provides safety training for a number of federal transportation-related agencies, including the Federal Transit Administration, the National Highway Traffic Safety Administration, and the Coast Guard. Before 1993, TSI also provided safety training for the Federal Aviation Administration (FAA) and the Federal Railroad Administration (FRA).¹ Under a reimbursable agreement with FHWA, TSI oversees and manages motor carrier safety training. The Academy has four full-time program managers who develop the curriculum for safety training provided to over 800 FHWA field staff each year.

FHWA AND TSI DISAGREE ON FINANCIAL IMPACT OF RELOCATION

In June 1993, FHWA completed a feasibility study that proposed to relocate its Motor Carrier Academy from the TSI campus in Oklahoma City to new facilities in Northern Virginia. The study found that the relocation would save FHWA \$323,900 over an initial 3 years. In February 1994, TSI completed a report questioning FHWA's decision to relocate the academy and providing an alternative cost analysis. TSI found that the relocation would cost FHWA about \$1,630,700 over the 3 years.

While the two analyses differed on several items, 84 percent of the difference was attributable to disagreement over two cost items: (1) rental and overhead costs and (2) per diem expenses for federal trainees. (Enclosure I provides details on FHWA's and TSI's estimates). On the first item, FHWA stated that the total costs for rent and overhead would be less in Northern Virginia because the agency would no longer have to pay an administrative and overhead charge to TSI to support the facility and could replicate TSI's services at lower costs. TSI stated that FHWA omitted training and administrative support costs for items such as training supplies, personnel actions, and accounting and that given the increased rental costs in Northern Virginia,

¹In 1992, the FAA discontinued its relationship with TSI for aviation security training. However, TSI still performs other safety training for FAA, such as for hazardous materials issues. FRA discontinued its relationship with TSI in 1990.

FHWA would spend more on rent and overhead. Therefore, while FHWA concluded that annual rent and overhead would cost \$156,000 less in Northern Virginia, TSI found that they would cost \$65,000 more.

On the second cost item--government travel expenses--FHWA assumed that per diem expenses in Northern Virginia and Oklahoma City would be the same. Current rates for the Washington, D.C., and Oklahoma City areas are \$151 and \$77 per day, respectively. FHWA has received an offer from a Northern Virginia hotel to provide discounted hotel rates and food vouchers in exchange for guaranteeing that all field staff trained each year would stay at the hotel. Similarly, TSI had secured a discounted hotel rate in Oklahoma City. TSI asserted that if FHWA were not able to maintain the discounted hotel rate, per diem rates could rise to the official government allowance for the Washington, D.C., area. Accordingly, TSI estimated that FHWA's per diem costs would be \$327,600 more in Northern Virginia than in Oklahoma City each year.

GAO'S ANALYSIS OF COST ESTIMATES SHOWS A RANGE OF SAVINGS OR COSTS

We reviewed FHWA's and TSI's cost estimates, obtained and reviewed documents supporting these cost estimates, and interviewed key FHWA, TSI, and Academy officials. Both FHWA and TSI officials reevaluated certain cost estimates on the basis of questions we raised about their supporting documentation. On the basis of the new support, we developed a range of probable savings/costs to FHWA. We found that for the 3 years following relocation, the costs in the Northern Virginia location could range from \$8,600 less to as much as \$931,400 more than the expected costs in Oklahoma City.

Travel expenses account for about three-fourths of the range in potential 3-year savings/costs to FHWA as a result of a relocation. For example, if both FHWA and TSI can secure the discounted hotel rates they cite in their cost estimates, the move to Northern Virginia would increase FHWA's travel costs by \$106,100 annually. However, if the discounted rates cannot be secured or sustained, FHWA's travel costs would increase by as much as \$341,300 each year. (Other items that contribute to the range of costs and savings are detailed in enclosure I.) According to our analysis, FHWA's ability to sustain discounted travel costs over time is the primary factor in projecting potential savings or additional costs stemming from the proposed relocation.

NONFINANCIAL ISSUES ARE CONSIDERED IMPORTANT FACTORS IN
RELOCATION DECISION

FHWA and TSI officials stressed that while financial issues are important in the decision to relocate the Academy, management and policy issues are primary considerations as well. For example, FHWA asserts that locating the Academy in the Washington, D.C., area will foster better management control, improve curriculum development, and enhance the Academy's visibility among key national motor carrier organizations. FHWA officials expressed particular dissatisfaction with the speed at which TSI officials were able to develop and modify existing curricula to respond to many changes in FHWA's environment, such as total quality management initiatives. In addition, by locating with the National Highway Institute, the Academy will enjoy more modern facilities and the latest in training technology. Finally, FHWA contends that its move, following previous moves by FAA and FRA, raises the broader question of whether or not the Department of Transportation needs a centralized location for providing safety training.

The TSI Director told us that the proposed relocation does not conform with the Department's renewed emphasis on intermodalism in federal transportation policy. TSI notes that each mode faces similar safety issues, such as hazardous materials transportation and human factors research. Because the Institute features training facilities for the Office of Pipeline Safety, the Federal Transit Administration, the National Highway Traffic Safety Administration, the FAA, and the Coast Guard, TSI officials cite the opportunities for synergy and intermodal cross-fertilization. Finally, TSI officials stated that the relocation will have a significant financial impact on TSI and hence on its ability to provide an intermodal training facility for the remaining modes at a reasonable cost.

Although the analyses we provide in the enclosure center on the projected savings or costs associated with the Academy's relocation, we believe that the management and policy (nonfinancial) issues that FHWA and TSI cite also must be weighed in the final decision about relocating.

We discussed our analysis and conclusions with FHWA and TSI officials, including the Director of TSI, the Manager of the Academy, and the FHWA Director of Program Management Support. We revised our estimates on the basis of new information. While FHWA and TSI still disagree on fundamental issues, they found our analysis sound and reasonable.

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Unless you publicly announce its contents earlier, we plan no further distribution of this correspondence for 7 days. At that time, we will send copies of this correspondence to the Secretary of Transportation; the Administrator, FHWA; and the Administrator, Research and Special Programs Administration. We will also make copies available to others on request.

Please contact Joseph Christoff, Assistant Director, at (312) 220-7703, or me at (202) 512-2834, if you or your staff have any questions.

Sincerely yours,



Kenneth M. Mead
Director, Transportation Issues

Enclosure

**COMPARISON AND DISCUSSION OF COST ESTIMATES
FOR RELOCATING THE MOTOR CARRIER ACADEMY**

Table I.1: Overview of Cost Impact of Relocation

| Cost item | Estimated relocation savings (costs) of moving Academy from Oklahoma City to Northern Virginia | | | |
|---|--|----------------------|--------------------|--------------------|
| | FHWA | TSI | GAO ^a | |
| | | | High cost | Low cost |
| Annually recurring savings (costs) | | | | |
| Rent and overhead | \$ 156,000 | \$ (64,800) | \$ 73,900 | \$ 127,700 |
| Staff travel between Oklahoma City and Washington, D.C. | \$ 45,300 | \$ (13,200) | \$ 34,600 | \$ 34,600 |
| Per diem expenses for staff training | \$ 0 | \$(327,600) | \$(341,300) | \$(106,100) |
| Subtotal for recurring savings (costs) | \$ 201,300 | \$(405,600) | \$(232,800) | \$ 56,200 |
| One-time costs | | | | |
| Staff relocation expenses | \$(280,000) | \$(365,000) | \$(208,000) | \$(160,000) |
| New equipment and supplies | \$ 0 | \$ (49,000) | \$ (25,000) | \$ 0 |
| Subtotal for one-time costs | \$(280,000) | \$(414,000) | \$(233,000) | \$(160,000) |
| 3-year cumulative impact^b | \$ 323,800 | \$(1,630,800) | \$(931,400) | \$ 8,600 |

^aGAO's estimate is a range from high to low because two plausible but significantly different cost scenarios exist for several of the items on which the Federal Highway Administration and the Transportation Safety Institute disagreed. High-cost column shows lower savings and higher costs for the move to Northern Virginia than the low-cost column.

^bThe 3-year cumulative impact is 3 times the recurring costs/savings, plus one-time costs.

Table I.2: Estimated Rent and Overhead Costs

| | Oklahoma City | Northern Virginia | Difference |
|-----------|---------------|-------------------|-------------|
| FHWA | \$308,800 | \$152,827 | \$ 155,973 |
| TSI | \$262,037 | \$326,800 | \$ (64,763) |
| GAO | | | |
| High cost | \$280,570 | \$206,627 | \$ 73,943 |
| Low cost | \$280,570 | \$152,827 | \$ 127,743 |

The Federal Highway Administration (FHWA) pays the Transportation Safety Institute (TSI) a fee for rent and various overhead expenses attributable to the Academy's operations. These overhead expenses include salaries of TSI management, accounting services, classroom supplies, and other items.

Oklahoma City Costs: GAO used the year-end 1993 cost of rent and overhead in Oklahoma City. We believe this is a more accurate figure than FHWA's estimate, which was prepared before final fiscal year 1993 costs were finalized, and does not take into account a 1993 decrease in the overhead assessment rate.

Northern Virginia Costs: Because the Academy has not yet relocated to Northern Virginia, rent and overhead costs there are highly uncertain. Our low-cost estimate represents a minimum floor of rent and overhead costs FHWA would incur in Northern Virginia. Our high-cost estimate is based on FHWA's estimate plus the cost of several items--such as printing costs and expenses for general training supplies--which TSI maintains FHWA should have included in its cost estimates.

Table I.3: Estimated Costs of Staff Travel Between Oklahoma and Washington

| | Oklahoma City | Northern Virginia | Difference |
|------|---------------|-------------------|-------------|
| FHWA | \$45,300 | \$ 0 | \$ 45,300 |
| TSI | \$31,500 | \$44,700 | \$ (13,200) |
| GAO | \$34,600 | \$ 0 | \$ 34,600 |

Cost in Oklahoma City: FHWA provided documentation of actual travel during fiscal years 1992 to 1994. After reviewing this

documentation and discussing it with FHWA and TSI officials, we based our estimate on it. FHWA's estimate included about \$11,000 in travel expenses that did not occur in 1993 and for which we found no evidence in prior years. TSI's estimate omitted travel expenses for staff who provide instruction at entry-level training classes.

Cost in Northern Virginia: If the Academy is relocated to Northern Virginia, travel between Oklahoma City and FHWA headquarters will no longer be necessary. Consequently, the costs will be zero. We clarified this point with TSI officials, who agreed with our position.

Table I.4: Estimated Per Diem Costs for Federal Trainees

| | Oklahoma City | Northern Virginia | Difference |
|------------------------|---------------|-------------------|-------------|
| FHWA | | | \$ 0 |
| TSI | \$355,162 | \$682,800 | \$(327,638) |
| GAO | | | |
| Official per diem rate | \$355,162 | \$696,487 | \$(341,325) |
| Discount rate | \$304,425 | \$410,512 | \$(106,087) |

FHWA's analysis assumed that per diem costs in Oklahoma City and Northern Virginia would be roughly the same. Hence, the analysis did not include specific estimates for per diem costs in each location.

GAO's first estimate assumes regular per diem rates of \$77 in Oklahoma City and \$151 in Northern Virginia. Our calculations assumed the Academy would train 25 entry-level students and 800 existing field staff annually. We developed our estimates as follows:

Table I.5: Estimated Costs at Regular Per Diem Rates

| Cost in Oklahoma City | | |
|---------------------------|---------------------------------|------------------|
| Entry-level training | 25 students x 40.5 days x \$77 | \$ 77,962 |
| Ongoing training | 800 students x 4.5 days x \$77 | \$277,200 |
| Total | | \$355,162 |
| Cost in Northern Virginia | | |
| Entry-level training | 25 students x 40.5 days x \$151 | \$152,887 |
| Ongoing training | 800 student x 4.5 days x \$151 | \$543,600 |
| Total | | \$696,487 |

Both FHWA and TSI officials asserted that they would obtain discount hotel rates in Oklahoma City and Northern Virginia. Accordingly, our second estimate for per diem expenses in Oklahoma City is based on the discount hotel rate of \$40 that local hotels offer as a volume discount; the total per diem expense would be \$66 instead of the allowable \$77. The estimate in Northern Virginia is based on a package deal of \$89 for meals and lodging offered by a hotel in that area. We verified that the hotel has made this offer in writing to FHWA. As a result, the per diem costs are as follows:

Table I.6: Estimated Costs at Discounted Per Diem Rates

| Cost in Oklahoma City | | |
|---------------------------|--------------------------------|------------------|
| Entry-level training | 25 students x 40.5 days x \$66 | \$ 66,825 |
| Ongoing training | 800 students x 4.5 days x \$66 | \$237,600 |
| Total | | \$304,425 |
| Cost in Northern Virginia | | |
| Entry-level training | 25 students x 40.5 days x \$89 | \$ 90,112 |
| Ongoing training | 800 student x 4.5 days x \$89 | \$320,400 |
| Total | | \$410,512 |

FHWA assumed that because of the lodging and meal package it anticipated in Northern Virginia, per diem costs there would be equal to those in Oklahoma City. However, FHWA was comparing a discounted rate in Northern Virginia to a regular per diem rate in Oklahoma City.

TSI assumed regular per diem rates of \$77 in Oklahoma City and \$148 in Northern Virginia. This is the same approach as with our first estimate, except that we used an updated official per diem rate of \$151 for Northern Virginia.

Table I.7: Estimated Costs for Relocating Academy Employees

| | Oklahoma City | Northern Virginia | Difference |
|-----------------------|---------------|-------------------|-------------|
| FHWA | \$0 | \$280,000 | \$(280,000) |
| TSI | \$0 | \$365,000 | \$(365,000) |
| GAO | | | |
| \$52,000 per employee | \$0 | \$208,000 | \$(208,000) |
| \$40,000 per employee | \$0 | \$160,000 | \$(160,000) |

No relocation costs will be incurred if the Academy remains in Oklahoma City. GAO's high-cost estimate assumes the relocation of four employees at a cost of \$52,000 each. Our low estimate assumes four employees relocating at a cost of \$40,000 each. FHWA's estimate assumed that seven employees would be relocating at \$40,000 each. However, FHWA has since determined that only four employees will be relocating. TSI assumed that seven employees would be relocating at a cost of about \$52,000 each.

Table I.8: Estimated Costs for Classroom and Office Equipment and Supplies

| | Oklahoma City | Northern Virginia | Difference |
|-----------|---------------|-------------------|------------|
| FHWA | \$0 | \$ 0 | \$ 0 |
| TSI | \$0 | \$49,000 | \$(49,000) |
| GAO | | | |
| High cost | \$0 | \$25,000 | \$(25,000) |
| Low cost | \$0 | \$ 0 | \$ 0 |

No new classrooms or offices will have to be equipped if the Academy remains in Oklahoma City. Although FHWA did not consider these expenses in its analysis, an FHWA official subsequently noted that at most, FHWA may have to spend about half of the \$49,000 that TSI estimated. Because the Academy will be sharing facilities already planned for the National Highway Institute, however, the

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cost of additional office supplies is difficult to predict and could be negligible. Our first estimate assumes that FHWA's revised assumption is accurate, while the second estimate assumes no additional costs will be incurred.

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