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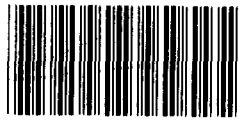
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WILLIAM J. ANDERSON, DIRECTOR
GENERAL GOVERNMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON MANPOWER 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:

It is a pleasure to be with you today to discuss the results of our cost analysis of a proposal to transfer the Western Executive Seminar Center, an Office of Personnel Management (OPM) residential training facility, from Denver to Grand Junction, Colorado. The Chairman of the Subcommittee on Manpower and Housing requested that we perform this cost analysis on March 13, 1984.

Our basic conclusion, Madam Chairwoman and Mr. Chairman, is that the proposal to move the Seminar Center from Denver in time

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to begin fiscal year 1985 operations in Grand Junction, cannot be justified on cost grounds. Such a move could entail net additional costs, by our estimate, of $301,508 in the first year, and $104,203 in the second year of operations. Even in the third and subsequent years, the continuing costs to the government of operating the Center in Grand Junction could exceed the cost of operating the Center in Denver by $81,811 each year.

Denver's cost advantage would be considerably diminished if any proposed transfer were to take place after the expiration of OPM's current lease in Denver in March, 1986. A delay in considering the transfer proposal would also allow OPM to consider the relative merits of Denver, Grand Junction, and possibly other locations on grounds other than cost, such as relative educational advantages, travel convenience, and the importance of relationships with other federal agencies.

At the end of my statement is a summary table and detailed analysis of the multi-year costs of two basic alternatives for the Western Executive Seminar Center: (1) remaining in the present Denver location; and (2) transferring the Center to Grand Junction for operations beginning in the next fiscal year. Before I explain the results of our analysis in detail, let me describe how we gathered our information.

We first contacted the Office of Personnel Management and examined OPM's files and cost figures relating to the proposed transfer. We interviewed OPM and General Services

Administration (GSA) officials in Washington and Denver, collected data on participants and guest lecturers for last fiscal year and the current one, and made site visits to the existing Center in Denver and to Grand Junction. We also interviewed the owner of the Executive Tower, where the Center is now located, and executives of four hotels in Grand Junction. In order to determine comparative travel costs, we identified the lowest air fares available as of May 2 to both Denver and Grand Junction on the basis of actual points of departure of the Center's fiscal year 1983 participants. Finally, we discussed our cost estimates with the OPM officials who are responsible for its comparison of cost alternatives.

The Western Executive Seminar Center

The Western Executive Seminar Center was established in Denver on October 1, 1980, having transferred there from Berkeley, California. The Center offers general and specialized courses in management for mid-level Federal managers, both civilian and military. In FY 1983, 1,022 managers attended 25 courses, which typically run for 11 days. While 41% came from states west of the Mississippi, more than half came from Washington, D.C. and other locations in the east, and 14 came from American installations in foreign countries. For the current fiscal year, 1,284 reservations have been made. Based on the Center's experience so far this year, we project an actual attendance of 1,258 trainees this year.

The Center is located on the second floor of the Executive Tower in downtown Denver, a privately owned building. The lease for 9,645 square feet, at an annual cost of $11.50 per square foot, will expire on March 31, 1986. Under a separate contract, rooms and meals are also provided for the trainees at the Executive Tower facility, at a negotiated cost of $67.45 per trainee per day.

Proposed Transfer to Grand Junction, Colorado

OPM has been considering ways to cut the costs of the Seminar Center for several years. In 1982, OPM analyzed the costs of moving the Center back to California, but decided that proposal was not justified economically. In January, 1984, OPM investigated four alternative locations within the state of Colorado, and selected Grand Junction as the most likely alternative to Denver. At no time, however, did OPM discuss with Executive Tower management the possibility of reducing costs at the Denver site. While OPM has not made a final decision, it has asked the General Services Administration to issue a solicitation for offers to facilities in Grand Junction, in anticipation that the Center will move in time to begin operations in Grand Junction on October 1, 1984.

In our opinion, Madam Chairwoman and Mr. Chairman, there is no valid economic justification for OPM to proceed with a transfer of the Seminar Center to Grand Junction this year. Nor, based on the best currently available information, will a Grand Junction location have a cost advantage over Denver in later

years. OPM does have opportunities, however, to pursue some cost-saving measures at the Denver facility in the near term, based on the expressed willingness of the present contractor to participate in a cost-cutting initiative.

The cost variables that we considered in comparing the Denver location with Grand Junction fall into four broad categories: (1) physical facilities for the Seminar Center's teaching program; (2) relocation costs; (3) participant expenses, including both food and lodging and round trip travel from home to the Center; and (4) teaching costs. Our estimates for each of these 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 and then take any questions you have on particular items or estimates.

Facility costs

The government is committed to paying the Executive Tower for the 9,645 square feet the Center now occupies through March 31, 1986, whether or not it leases space in Grand Junction. GSA has told us that it is unlikely that another agency will be willing to use this specially configured space for 18 months or less, so our estimates incorporate the Denver lease cost for all of FY 1985 and the first six months of FY 1986 for both the Denver and Grand Junction alternatives.

OPM has indicated that the Center can get by with less space than it now occupies, and its solicitation for offers specifies a minimum of 6,555 square feet. The management of the Executive Tower has offered to make available a lesser 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. A GSA market survey of suitable space in Grand Junction asserts that the cost there would be from $8 to $10 per square foot, and our estimates use the mid-point of that range. This gives Grand Junction a cost advantage of $2.50 per square foot after March of 1986. Because the Denver space must be paid for in the mean-time, however, a move to Grand Junction by next October would involve net additional rental costs of $58,995 in FY 1985, and $21,304 for FY 1986. In FY 1987 and subsequent years, the cost advantage would be in favor of Grand Junction, by an amount of $16,388 annually, assuming constant lease costs for both facilities.

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 $7,000. The larger cost is for

relocation of the nine employees of the Center. GSA has estimated a cost of $22,550 per employee for these expenses, which include subsidies on the sale of houses in Denver and purchase of new homes in Grand Junction. Theoretically, if all nine employees took advantage of their right to transfer with their jobs, this cost could be as high as $202,948. However, for estimating purposes, we assumed that the Center's four clerical employees would not choose to move. Therefore, our $132,000 estimate of total relocation costs includes moving the Center's furniture and equipment, financing the transfer of five professional employees, and paying severance costs for the three clerical employees who are eligible for severance pay.

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. We used a basis of 1258 annual participants, which is the FY 1984 number of spaces sold to agencies, reduced 2 percent based on the Center's FY 1984 experience to date of "no-shows", or persons who were scheduled but did not appear for courses. We estimated individual food and lodging costs at $57.45 per day in Denver, based on Executive Tower's written offer to reduce its current charges to that level. We talked to executives of four hotels in Grand Junction and confirmed OPM's estimate that food and lodging could be provided in Grand Junction at a daily cost of $50.00. This results in a margin of more than $100,000 per year in favor of Grand Junction. While

food and lodging costs may be negotiated upward, particularly in later years, we have no reason to believe that inflation would be any more or any less a factor in Grand Junction than in Denver.

Travel costs for participants are borne by their employing agencies rather than by OPM, but we believe that OPM has an obligation to consider them in comparing alternative locations for the Center, since these are costs to the government. We calculated travel costs using as a base the actual points of origin for the 1,022 FY 1983 participants adjusted upward by 23 percent because 236 more participants are expected this fiscal year. We determined the lowest unrestricted air fares available to travelers as of May 2, 1984. This calculation resulted in an excess annual cost of $155,677 if the participants attend a Grand Junction training center.

Faculty and staff

We have assumed that salaries for the Center's faculty and staff would be identical whether the staff is located in Denver or Grand Junction. 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 1983, 228 different lecturers made 350 appearances at the Center. 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 conclusion that $45,615 would be required for lecturer transportation from Denver to Grand Junction. We have not calculated any lodging costs, on the possibly questionable assumption that these trips could each be made in a single day if they were carefully scheduled by the Seminar Center.

Conclusion

In summary, Madam Chairwoman and Mr. Chairman, we estimate that a relocation of the Seminar Center this year would result in a net additional cost to the government of more than $300,000 in FY 1985, and more than $100,000 in FY 1986. In the third and subsequent years, without the one-time costs of relocation and paying double rent, the relative costs of Denver and Grand Junction still show Denver to be the more economical location to the government. Cheaper rent and subsistence in Grand Junction are not enough to offset its higher travel costs.

We recommend that OPM not follow through on its proposal to relocate to Grand Junction this summer. Rather, OPM should take immediate advantage of the offer by Executive Tower management to negotiate reduced food and lodging costs. Furthermore, if

OPM is convinced that its original space requirement was excessive in light of altered plans and standards, it should negotiate reduced space requirements upon expiration of the current lease. In the event that these negotiations are not fruitful, though we have no reason to believe they should not be, OPM will have an opportunity to investigate other options. We would urge that the other options not be limited to Grand Junction, however, but also include alternative locations in Denver. While we have limited our analysis to cost factors, we also believe that other factors should be considered before a decision is made to abandon an established facility. Among these factors are:

--the track record and proven relationship of the Seminar Center with the present contractor in Denver. Based upon our review of OPM's past evaluations, and our discussion 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;

--the importance in the educational program of field trips in the Denver area 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.

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

SUMMARY TABLE
COMPARING WESTERN EXECUTIVE SEMINAR CENTER COSTS
IN DENVER AND GRAND JUNCTION, COLORADO

	Fiscal Year 1985 Cost Estimates		Fiscal Year 1986 Cost Estimates		Fiscal Year 1987 Cost Estimates	
	Grand Junction	Denver	Grand Junction	Denver	Grand Junction	Denver
Facility:						
Grand Junction lease	$58,995	-	$58,995	-	$58,995	-
Denver lease	110,918	110,918	55,459	93,150	-	75,383
Grand Junction alteration	12,000	-	-	-	-	-
Executive Tower conversion	-	-	-	12,000	-	-
Subtotal	$181,913	110,918	114,454	105,150	58,995	75,383
Relocation:						
Furniture and equipment	7,091	-	-	3,300	-	-
Personnel relocation costs	125,223	-	-	-	-	-
Subtotal	132,314	0	0	3,300	0	0
Participants:						
Food and lodging	691,900	794,993	691,900	794,993	691,900	794,993
Travel	451,952	296,275	451,952	296,275	451,952	296,275
Subtotal	1,143,852	1,091,268	1,143,852	1,091,268	1,143,852	1,091,268
Faculty:						
Salaries	349,000	349,000	349,000	349,000	349,000	349,000
Guest speaker costs	87,615	42,000	87,615	42,000	87,615	42,000
Subtotal	436,615	391,000	436,615	391,000	436,615	391,000
TOTAL	$1,894,694	$1,593,186	$1,694,921	$1,590,718	$1,639,462	$1,557,651
Grand Junction costs exceed Denver costs by	$301,508		$104,203		$81,811	

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 9,645 square feet at $11.50 per square foot. The annual rental for this area is $110,918. If the Center is relocated beginning in fiscal year 1985, the Government is liable for payment of the lease during 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 has 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 March, 1984, and determined that a reasonable market range in Grand Junction is between $8.00 to $10.00 per square foot for a fully serviced lease with standard tenant finish. We based our cost estimates on a mid-point estimate of $9.00 per square foot,

recognizing OPM's intention to lease a minimum of 6,555 square feet. Our estimate of $58,995 per year applies to each of the three fiscal years.

2. Denver Lease

We used the current annual rental cost at Executive Tower of $110,918 as the first year's cost. In addition, because GSA believes this space, if vacated by OPM before the lease expires, would be unlikely to attract another tenant, we added the contract cost of $110,918 to the first year's cost of a move to Grand Junction. We also added one half of this sum ($55,459) 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.

We adjusted our Denver cost estimates beginning in the latter half of the second year to reflect the offered prospect of reducing the total space available to OPM in Denver to 6,555 square feet. In the second year we estimated the cost for the last 6 months of the current lease (half of $110,918 or $55,459) and 6 months under a new lease for 6,555 square feet (6,555 square feet x $11.50 per square foot divided by half=$37,691). This estimate of the second year's lease at the Executive Tower totals $93,150. We estimated the third year's lease at the Executive Tower as $75,383 (6,555 square feet x $11.50=$75,383).

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.

We also examined possible conversion costs at the Executive Tower to convert the Center to office space in the event that GSA could find a substitute tenant. GSA estimated these costs to be between $40,000 and $50,000. However,

because GSA believes it unlikely to find another tenant we did not include this total in our cost comparison.

PARTICIPANTS:

We estimated participant costs for (1) food and lodging and (2) travel expenses on the basis of of 1,258 participants in fiscal 1984. This estimate is based upon 1,284 participant slots actually purchased by Federal agencies, less a shortfall of 26 participants for potential "no shows" (based on the Center's fiscal year 1984 experience to date on "no shows" of 2 percent).

1. Food and lodging

OPM's market survey as well as our own discussions with four hotels in Grand Junction indicated a food and lodging cost of $50.00 per day per participant. Since each seminar lasts 11 days, we estimated food and lodging for Grand Junction at $691,900 ($50 x 1,258 participants x 11 days).

The current OPM contract with the Executive Tower provides food and lodging at a cost of $67.45 per day per participant. On March 8, 1984, however, the Executive Tower notified OPM that it would participate in reducing costs of the training center and reduce its food and lodging costs to $57.45. Consequently, we calculated food and lodging costs for the three fiscal years at $57.45 per person, per day, to arrive at an annual cost of $794,993. We did not include an inflation escalator in either calculation because we saw no reason to believe that there would be differential inflation rates for either city.

2. Travel

To estimate travel costs we determined and aggregated the actual points of origin of the Center's 1,022 fiscal year 1983 participants. We adjusted this upward by 23 percent to account for an increase to 1,258 expected participants in fiscal year 1984. We then determined the lowest unrestricted fares available to government travelers on May 2, 1984, as identified by GAO's travel section. This calculation resulted in participant travel costs to Denver and to Grand Junction of $296,275 and $451,952 respectively.

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

At our request, GSA officials surveyed the Denver facility to estimate the cost of moving the furniture and equipment. GSA estimated a cost of about $5,300 to move the furniture and equipment to Grand Junction and a cost of about $1,800 to move and install telephones. This total of $7,100 was included in our first year's cost analysis for a Grand Junction move. In addition, we estimated the cost of the move during the second year to reduced space at the Executive Towers. GSA estimated the cost of moving to a different floor to be $3,300 ($1,800 to move and install telephones and $1,500 to move furniture and equipment).

2. Personnel Relocation Costs

WESC employs nine full time staff members who are entitled to relocation expenses for themselves and their families if they choose to transfer to a new location in connection with their jobs. Such expenses are applicable to the first year's costs of a Grand Junction move. We assumed five professional staff members would move to Grand Junction, and that the four non-managerial staff would choose to remain in Denver.

On the basis of the most current Federal regulations, GSA estimated the cost of relocating a family of four to be approximately $22,550. If the five staff members from the center moved to Grand Junction the relocation costs could total an estimated $112,750.

We also included severance pay costs associated with our assumption that four individuals would choose not to move to Grand Junction. Three individuals are eligible for severance pay. Based on their age and seniority, we estimated severance costs at $12,473. The combined total for relocation and severance costs is $125,223.

FACULTY:

OPM's records showed the staff salaries and benefits at $349,000 per year. These costs are independent of location and are used in each of our calculations.

The Seminar Center also depends heavily on outside speakers to lead discussions in its management seminars. During FY 1983, 228 different speakers made 350 appearances at the Center. Of these appearances, 146 or 41 percent were made by residents of Denver, and 119 or 34 percent were made by visitors from Washington, D.C.

OPM also showed the actual fiscal year 1983 guest speaker costs at the Denver center as $42,000. We adjusted this figure by the estimated increase in travel expense that would be incurred by the speakers in going to Grand Junction rather than to Denver, since we do not believe that OPM can readily substitute speakers from Grand Junction for the outside lecturers the Center now employs. We calculated the air fare for the 350 appearances at Grand Junction on the basis of their actual city of departure to be $95,718. The air fare to Denver for the 204 appearances made by non-Denver residents totaled $50,103. We added the difference of $45,615 to OPM's figure of $42,000 to arrive at an estimate for speaker costs at Grand Junction of $87,615.

We did not include an estimate for subsistence and lodging for speakers in Grand Junction, above current requirements in Denver. It is possible to schedule appearances in such a way as to allow for trips between Denver and Grand Junction in a single day. Neither OPM nor we have investigated the willingness of speakers to make such trips, however.