on year after year, and will increase by the year as we increase our efforts to find ways to improve on our schedule C and as more items become available for generic procurement.

As an illustration of anticipated future savings, we have in recent months put 78 additional items in our central system. Projected annual sales for these 78 items are somewhere around $4,783,000, with a projected annual savings thereby of $1,232,513 over the present method of supply.

Mr. GORDON. Dr. Lee, may I interrupt?

Have any companies expressed any reluctance to enter into Federal Supply Schedule (FSS) contracts because of the existence of a new Schedule C?

Mr. WHITWORTH. Mr. Gordon, I anticipated that there would be great expression of reluctance. I have become aware of none, and the gentlemen who are on the firing line say they have none.

It is my impression that a firm will not decline, because if a firm declines to participate in schedule C, that means that that firm then falls into the lowest possible category of potential purchase from the VA because they then must depend on local purchases for any business they get from VA. If they are on Schedule C, they are in a high priority source.

So the answer, sir, is we do not believe we have had any resistance, and we believe there is strong incentive for companies to list their items on Schedule C.

Mr. GORDON. What criteria do you use for selecting items for inclusion in the Schedule C, FSS?

Mr. WHITWORTH. At the present time, any item that has an annual sale to VA of $50,000 or above. Remember, when it is made a Schedule C item, it is no longer a Schedule B item. It cannot be listed on both Schedule B and Schedule C. $50,000, sir.

Dr. LEE. On controlling costs, our cost reduction, we think really means cost control, including the control of the operating costs, sometimes a hidden item. We only centrally procure those items that can most economically be supplied to our users in that manner. It is not difficult for VA to determine this since the price paid by our users for centrally supplied items includes costs such as the personnel costs, transportation, maintenance of buildings and grounds, inspection, et cetera. We operate the only extensive central supply system in the Federal establishment that is geared to this so-called industrial funding concept. Concerning our central stocking policies, the report of the Commission on Government procurement, that was volume 3, page 34, states:

> Careful selection of items for depot stock on a total cost basis has reduced VA depot costs to about 16 percent of the item cost. This cost is far below that of all other activities studied.

In further support of the VA's unique total cost concept for controlling costs through item management, the Commission report, volume 3, observes on page 36:

> Industrial funding enables an activity to finance the cost of doing business by applying a markup computed on the basis of the value added by its operation. With this total cost visibility, the optimum method and location for purchase of government needs could be identified easily.