

an elapsed time of about 90 days from the date of reduction in force notice until the time we actually avoid personnel costs. In this connection, the experience of the Foreign Excess Sales Office indicates that the sales cycle for Related Personal Property consumes from 90 to 120 days. In other words, the bulk of the costs associated with the sales of Related Personal Property will be incurred whether or not sales are undertaken. This factor argues strongly for making sales of Related Personal Property, wherever feasible, in order to recoup some revenue to help offset the unavoidable costs.

BASIS FOR ARRIVING AT ESTIMATED FAIR MARKET VALUE

The following is an example of the rationale used in prenegotiation computations. The attached spread sheet, showing the columns under discussion, contains Confidential Noform information pertaining to the US maximum/minimum estimated return for each system or facility. A tight control on this type of information is maintained so as not to jeopardize the negotiation efforts.

Verdun Hospital

The average year of construction for this installation was 1958. You will note in the first column (see inclosure), the various categories of equipment and systems which were the subject of negotiations. For the most part, the replacement value (Column 2) was established by first determining from existing records the actual contract expenditure for each line item and multiplying by the coefficient of 1.43. This factor is based on increased cost of construction 1967 versus 1958 as established by the French National Institute of Statistics. For those line items where the original contract costs are not available, replacement value is computed at current costs. Column 3 is the standard depreciation rate based on a 20-year life. We can assume that under normal conditions, with average maintenance, the systems and equipment involved will have a life expectancy of 20 years. Column 4 shows the depreciated value on the basis of this 20-year life. The total of this column is usually the basis for the first counteroffer by the United States. Column 5 rates a more realistic evaluation of depreciation and life expectancy of the systems. Although it is recognized that the systems and the installations have an average of 20 years' life, many of the components of the systems, such as pumps, light fixtures, sanitary equipment, have an expected life of anywhere from 7 to 12 years. On-site inspections may also reveal that due to lack of proper care and preservation, some of the systems and equipment are deteriorating at a faster rate.

In effect, the revised depreciated value, as shown in Column 6, is the actual current value to the United States for the systems in question. Column 7 reflects a spread of the estimated buyer's coefficient of utilization. As a factor in arriving at an equitable sales price, a maximum/minimum coefficient of utilization is used to reflect the buyer's needs as well as the intended use of the facility. The coefficient of utilization takes into consideration the higher standards of construction used by the United States Government for the construction of these particular facilities. Examples are the heating and electrical systems that exceed French standards by anywhere from 50 to 70 per cent. That is to say, if the Government of France had constructed the hospital at Verdun for the same designated purpose, the heating, electrical, water systems, etc., would have been tailored to relatively lower standards to meet their accustomed needs. The coefficients also take into consideration the intended use of the hospital by the Government of France. In this particular instance, the hospital at Verdun will be used partially as a general hospital, but also as a home for retarded children. Therefore, it will require extensive modifications to the various utility systems in order to adapt the facility to the configuration desired. It must also be recognized that a 1,000-bed hospital for a city of 26,000 is much too large. Considering all these factors, the coefficient of utilization spread is computed and, when applied to the revised depreciated value in the case of each system, we arrive at the minimum and maximum estimated expected return as shown in Columns 8 and 9. The final column shows the original Government of France offer for the various components of the hospital.

It is considered in the best interest of the United States Government to accept a negotiated sales price that falls somewhere within the range of this established maximum and minimum. To date we have been quite successful in concluding sales within these limits, and we hope that continued negotiations along these lines will result in similar sales for the other bases of interest to the Government of France.