similarly applying the rent credit for Government rent-free use to each machine above an established dollar value in its ratio of Government versus commercial machine hours of use.

*Revised rental procedure needed to increase return on investment in heavy presses*

The Air Force heavy press program was begun during World War II as an attempt to produce major aircraft structural elements through forging and extrusion processes. Since there was no commercial requirement at the time for presses of this size, the Air Force undertook the sponsorship and support of the heavy press program. The first of these presses was released to production in 1946; additional presses were acquired during the 1950's. The program currently includes about 13 presses, costing about $76.4 million, which are located at seven plants. Four of these plants are Government owned and three are contractor-owned. Also, the Air Force has provided land, buildings, and support equipment costing about $132.6 million.[1]

Rent for the use of the heavy presses has generally been charged for all work, both Government and commercial, at the rate of 4 percent of sales. Air Force officials said that one of the reasons for basing rent on sales was to relieve the operators of some of the risk of initial operation during early stages of the program. Basing rent on sales removed part of the risk, since no rent would be due from the operator unless a salable product was produced and sold. A second reason for basing rent on sales was ease of administration. Utilization records would not be necessary and Government surveillance could be held to a minimum.

At the three locations visited, we found that the heavy press rent liability for the most recent 12-month period available totaled about $1.9 million. Of this amount, about $1.4 million was applicable to Government work. The total rent liabilities in this 12-month period represented returns on the Government investment ranging from 1.03 to 2.03 percent.

In some cases the presses were used at capacity and significant amounts of commercial products were being processed. In comparison with current rates of return on Government bonds and commercial paper, the 1 to 2 percent annual return on the Government's investment in heavy presses appears to be too small from a financial point of view.

We did not review the pricing or purchase orders at higher subcontract or prime contract levels to determine the effect of the rental cost on end-item prices. However, since the press operators may be below the first tier subcontract level, the portion of the end-time price attributable to rent may include the indirect expense and profit factors of one or more tiers. Because of the application of such factors to the cost base at each tier, it seems logical that the cost of rent included in the Government's end-item prices may be significantly greater than the rent received by the Government from the heavy press operators for the same work.

One reason which has been advanced by Air Force officials for retaining the present rates was that an increase in rental rates applicable to both commercial and Government businesses would cause increased spending of appropriated procurement funds, because of the inclusion of rent costs, plus the application thereon of indirect expense and profit factors of higher tier subcontractors and the prime contractor, in the end-item prices. Air Force officials said that the reason for charging rent for all work was the difficulty of ensuring that the Government would receive adequate consideration for rent-free use, as is required by ASPR 13-402. Since the heavy press operators are often as low as the third tier subcontract level, they stated that it would be difficult to determine whether a reduction in the press operators' costs would be passed on through all the higher tiers and would result in lower end-item prices. They stated further that they would authorize rent-free use under special circumstances. They said that the Navy has prime contracts with three extrusion press operators under which rent-free use would be feasible but has not been requested.

A review of heavy press rental policies was requested by OEP in 1965, with a view to possible modifications which would increase the yearly monetary return to the Government. The review was made in 1966. Air Force officials would not provide us with information developed under this review because the report had not been released.

[1] Data in this paragraph are based on a 1962 report; however, an Air Force official at Wright-Patterson Air Force Base advised us that there had been no significant changes after that time.