Agricultural & Applied Economics Association

555 E. Wells Street, Suite 1100 | Milwaukee, WI 53202 | (414) 918-3190 | Fax: (414) 276-3349 | www.aaea.org

AAEA review finds that USDA benefit-cost analysis underestimates the true cost of relocating researchers to Kansas City

June 19, 2019

Economists with the Agricultural and Applied Economics Association (AAEA) have reviewed the benefit-cost analysis released by USDA leadership on June 13 to justify relocating two USDA research agencies to Kansas City. The summary of the cost benefit analysis presented by USDA predicts a net savings to U.S. taxpayers from relocating the USDA's Economic Research Service (ERS) and National Institute of Food and Agriculture (NIFA) from the Washington, DC area to Kansas City. However, a review by three AAEA member economists finds that USDA leadership failed to follow federal guidelines for the benefit cost analysis. The economists' review finds a major underestimate of true costs.

In fact, the move to Kansas City will cost taxpayers between $83 and $182 million dollars, rather than saving them $300 million dollars. The USDA's underestimate arises from two errors in its original justification: 1) overstating the cost of keeping the agencies in the National Capital Region, and 2) failing to take into account the lost value of research from staffers who resign or retire rather than move. Translated into 2019 dollars, the combined values of these corrections result in a loss to taxpayers of $37–128 million, rather than the USDA prediction of a $193 million gain.

The USDA analysis claimed net savings from two sources: 1) the cost of real estate, and 2) the cost of staffing. The USDA calculated real estate savings by comparing the cost of staying in current commercial property in the National Capital Area with the cost of moving to commercial property in Kansas City. The analysis ignored the option of moving to cheaper real estate in the Washington, DC, area. The USDA analysis of staffing costs focused only on lower payroll costs in Kansas City. It ignored the lost value of research incurred due to move-related staff vacancies. Because it is not public, the members of the AAEA do not have access to the full Ernst and Young cost-benefit analysis behind the summary released by USDA. As a result, the AAEA economists focused on corrections to the cost of real estate and the value of public benefits lost from untimely attrition of the workforce during a high-workload season.

Comparing the cost of Kansas City move to the cost of relocating in the National Capital Region

The USDA exaggerated the savings from moving the agencies to Kansas City by comparing it to current costly leases rather than the option of finding less expensive sites in the National Capital Region.

- **USDA owns three buildings with a total of 2.85 million gross square feet of office space in the National Capital Region. The ERS and NIFA require 120,000 square feet, which amounts to only four percent of the total available.** The agency did not evaluate the option of moving the agencies into existing USDA space, a move that would eliminate rental payments. In effect, compared to this option, a move to Kanas City would actually cost the government $40 million in additional rent in 2019 dollars, plus all the disruption and employee moving costs.
- **Even if the agencies were to remain in commercial office space in the National Capital Region, they could move into a single building at market rates below their current leases.** Using recent estimates of rental rates in the agencies' current neighborhood of Southwest Washington, DC suggests a potential reduction in annual rent from $11.3 million (2019 budget estimate) to $6.3 million. Under that scenario, moving the agencies to Kansas City saves the government a cumulative $35 million in rent in today's dollars, $57 million less than the $92 million claimed in the USDA's analysis.

AAEA
Agricultural & Applied Economics Association
555 E. Wells Street, Suite 1100 | Milwaukee, WI 53202 | (414) 918-3190 | Fax: (414) 276-3349 | www.aaea.org

Accounting for the value of research lost due to employee attrition

In accounting for the value of lost research, the AAEA follows federal rules in the Office of Management and Budget's *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs.* Those guidelines state that a proper federal benefit-cost analysis should capture "social net benefits" including the value of "resources in their most productive application elsewhere."

- **Adding in the value of research benefits that are lost due to employee attrition turns the net impact to a negative for U.S. taxpayers.** Government researchers' findings are worth millions of dollars to taxpayers (such as the ERS research that dramatically reduced the cost of achieving conservation benefits through the Conservation Reserve Program). In the private sector, the most productive employees would earn high salaries and receive stock options. The reason that the government hires its own researchers is to conduct work that the private sector would not do otherwise and because the value to the nation of their work is greater than what they are paid. In order to place a value on this benefit, we conservatively assume that the lost value of research from each vacancy caused by the move equals the value of compensating an average employee in that job category—on top of any payroll savings.
- **The ERS and NIFA currently have vacancy rates of 20 and 26 percent, respectively, and internal sources predict that 50–75 percent of employees mandated to move will opt to leave the agencies rather than do so.** Because the number of departing employees is so large (250–400) and because most are highly skilled PhD holders, we further assume that USDA will be able to rehire only one quarter of them per year and that the replacement employees will take approximately four years to reach the level of expertise and research productivity of the researchers they replace. Employees who do move suffer a 25 percent reduction in productivity during their first year as they buy and sell homes, find new schools and places of worship, and adjust to new settings. In order to capture the value of lost research quality from current close interaction with partner agencies and Congressional staff, the analysis adds in the cost for ERS and NIFA researcher employees of two trips annually to Washington, DC.
- **Discounting the flow of costs over 15 years at the five percent rate used in the USDA justification, AAEA economists calculate that the cost to the nation of lost research amounts to $149–215 million (or $141–203 million in 2019 dollars).**

Bottom line: These relocations are a net loss for America's taxpayers

Using the conservative baseline that the agencies stay in market-priced leased space in the National Capital Region and that 50 percent of current ERS and NIFA employees opt to relocate, the overall net loss to taxpayers comes to $83 million ($37 million in constant 2019 dollars). The less conservative assumptions that the agencies are housed in USDA-owned space and that only 25 percent of employees choose to relocate results in a $182 million net loss to taxpayers ($128 million in constant 2019 dollars).

Contacts:

Scott Swinton, AAEA Past President, swintons@msu.edu or phone +1 (517) 353-7218
Susan Offutt, former AAEA President and ERS Administrator, seo2@cornell.edu or phone +1 (240) 381 3168.
Katherine Smith Evans, former AAEA Executive Board Member and ERS Administrator kitty.s.evans@aeapubs.org or +1 (301) 974-1644