

OFFICIAL

NIFA and ERS Relocation: Cost Benefit Analysis

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Executive Summary

The United States Department of Agriculture (USDA) has proposed a new headquarters location for the National Institute of Food and Agriculture (NIFA) and the Economic Research Service (ERS) agencies. The relocation supports Secretary Perdue's goal of ensuring USDA is the most effective, most efficient, and most customer-focused agency in the federal government, allowing USDA to be closer to stakeholders and move resources closer to its customers.

Ernst & Young (EY) with direct engagement with USDA leadership, including ERS and NIFA, conducted a rigorous analysis of over 300 potential sites in 35 states using a developed set of criteria focused on quality of life, operational and capital costs, workforce statistics, and logistics and infrastructure considerations.

Based on the analysis conducted, the Secretary selected the Kansas City Region as the next home of ERS and NIFA.

Major benefits of the relocation include:

- **Improve USDA's ability to attract and retain highly qualified scientific and administrative staff with training and interests in agriculture**, many of whom come from land-grant universities. With lower cost of living opening a broader candidate pool, USDA would be able to decrease turnover in these positions currently in the Washington D.C. area associated with a higher cost of living and longer commutes.
- Place important USDA resources **closer to many USDA stakeholders**, most of whom live and work far from the Washington, D.C. area.
- **Enhance strategic interagency partnerships** with positions in Washington D.C. focused on collaboration.
- **Benefit American taxpayers** through significant savings on employment costs and rent, which will allow more employees to be retained in the long run, even in the face of tightening budgets.

By moving to the Kansas City Region, taxpayers will save 11.33%, or nearly \$300 million nominally, over a 15-year lease term versus the current National Capital Region (NCR) situation. These savings will allow funding to be refocused from site-specific overhead costs to new or expanded research capabilities in both Agencies. Full payback of the move costs will be almost immediate, with breakeven projected to be in FY 2021.

Overview and Process Background

In August 2018, USDA requested Expression of Interests (EOIs) from potential sites for a new headquarters location for the NIFA and the ERS. USDA received a total of 139 EOIs encompassing 308 potential sites in 35 states. Each EOI was then mapped to a Metropolitan Statistical Area (MSA) to identify the number of statistical areas represented and the number of real estate relocation opportunities currently available in the commercial real estate market.

The *USDA Notice of Request for Expression of Interest for Potential Sites for Headquarters Office Locations* opened on August 15, 2018 and closed after an extension on October 15, 2018. EY with direct engagement with leadership from USDA, including ERS and NIFA, determined the needs for the proposed headquarters facility would be approximately 120,000 square feet to accommodate approximately 550 employees from both Agencies. USDA applied a set of guiding principles, including:

- Meeting USDA travel requirements – availability of direct flights and drive time
- Locations with specific labor force statistics – greater than 100,000 individuals
- Locations with work hours most compatible with USDA office schedules – within two time zones beyond Washington D.C.

From this initial down selection, a medium list of 68 EOIs, and 40 MSAs, remained under consideration. The USDA continued the down-selection of the EOIs from the medium list.¹ The 40 MSAs in the medium list were further evaluated using an established location criteria defined by USDA, ERS, and NIFA leadership.² The criteria were assessed using a proprietary location model developed by Ernst & Young and included:

- *Quality of Life*: Subcategory examples include Diversity Index, Residential Housing Costs, Access to Healthcare, and Home and Community Safety Ranking.
- *Costs (Capital and Operating)*: Subcategory examples include Commercial Real Estate Costs, CPI Index, and Wage Costs.
- *Workforce*: Subcategory examples include Labor Force Growth Rate, Unemployment Rate, and the Labor Force Population.
- *Logistics / IT Infrastructure*: Subcategory examples include Lodging Availability, Proximity to Customers, and Airport Hub Status / Passenger Traffic.

The medium list of locations took into consideration critical factors required to uphold the important missions of NIFA and ERS. USDA also considered factors important to its employees, such as quality of life. The top EOIs were reviewed in detail and USDA selected a short list of four locations offering existing buildings with sufficient space (approximately

¹ USDA: <https://www.usda.gov/media/press-releases/2019/03/12/secretary-perdue-announces-middle-list-ers-and-nifa-relocation>

² USDA: <https://www.usda.gov/media/press-releases/2018/12/21/perdue-announces-ers-nifa-site-selection-criteria>

120,000 square feet) to meet NIFA and ERS requirements. Table 1 summarizes the top four locations.

Table 1 - Top Four Locations

<i>State</i>	<i>Location</i>	<i>EOI Applicant(s)</i>
<i>Indiana</i>	Multiple Greater Indianapolis (inc. West Lafayette)	Purdue University, Indiana Economic Development Corporation, State of Indiana
<i>Kansas and Missouri</i>	Greater Kansas City Region	The Kansas City Area Development Council, The Kansas City Animal Health Corridor, Area Congressional Leaders
<i>North Carolina</i>	Research Triangle Region	NC Research Triangle, Wake County, Durham County and Research Triangle Park

Location Visits

Site visits were performed for the top four short list locations (identified in the table above) to: perform additional due diligence, investigate knowledge gap areas through in-market meetings, refine business case / cost-benefit data, and gain first-hand perspective of the “on the ground” business environment and associated implementation risks.

The onsite meetings and the information obtained during the visits included:

- MSA and local community introduction and overviews – community demographic and economic statistics, diversity, education, geographic overview, quality of life, etc.
- Economic incentives and business support – business costs, tax environment and potential tax incentives and community support
- Labor market and talent overviews – labor market overview, market talent, programs & assistance, discussions with federal employees within market
- Residential market overview – residential community overview, housing and apartment options, schools (public/private/charter), special education, and child/elder care.
- Commercial office market overviews and site tours – Office market overview, commercial office hubs, site specific overviews and transportation options
- Agricultural ecosystem – agricultural assets, collaboration & partnerships, research institutes

Evaluation Process

The USDA site visit committee held debrief sessions at the end of each day during the site tours to review the information gathered and discuss the relative merits of the locations' presentations and tours. At the culmination of all the site visits, a focused set of key parameters were identified within the categories of information obtained during the site visits (refer to bulleted list in the Site Selection Visits section above).

The key dimensions were agricultural / business support, labor market, residential quality of life, and implementation timing. Criteria within the key dimensions included proximity to customers, partnerships, diversity, transportation and accessibility, education, and dual career considerations.

In addition to the key dimensions, a set of differentiating factors were identified based on comments from the site visit committee. The differentiating factors were access to NCR, proximity to census research data center, proximity to land-grant and R1-classified research universities, proximity to peer Federal agencies, urban communities, suburban / campus communities, talent retention, talent attraction, incentives, cost savings, and GSA leasing process considerations.

Benefits Analysis

The result of the site selection analysis was a determination that all visited sites could adequately meet the two Agencies' requirements and objectives. The Kansas City Region, including MO and KS site options, however, was selected for the wide range of benefits it offers to both mission function and a high quality of life for employees. Many of these benefits are listed below.

Quality of Life Centric

- Average commute time of 23.2 minutes compared to national average of 26.9 minutes,³ with a strong transportation infrastructure, including regional bus system spans 89 routes over 7 counties, and a downtown streetcar system (no-cost) currently connects 2.1 miles of the city center, with planned expansions up to 9 miles.
- A strong housing market for employees ranking high in housing affordability, a principal factor in cost of living. The median sales price in KC is \$205,400 compared to \$420,000 in Washington, D.C., and \$254,800 across the U.S.
- A high ranking at 16th of 182 in Best Cities for People with Disabilities.
- Access to cultural experiences, performing arts, recreational opportunities including amusement parks and sports teams.
- Innovative network of top recruiters to represent corporations providing guidance, insight and access to area companies via resume sharing for relocating talent and family members.

Agency Centric

³ Per US Census Bureau Table S0801 – 2017 data

- Availability of Class A office real estate options that met the two agencies' space needs of 120,000 SF for permanent office space. Multiple buildings toured during site visits were deemed to be attractive options should they pass the GSA process.
- Access to temporary swing space within the USDA Beacon Complex or other existing GSA buildings to allow agencies to fill open positions, provide flexibility to employees to voluntarily relocate at an earlier date, and to deliver optimum function as quickly as possible during the transition.
- The largest and most robust incentives package offered providing on the top savings more than \$26 million dollars.
- Kansas and Missouri are home to over 4,000 skilled USDA employees, which continues to allow the opportunity for collaboration in a lower cost environment and an existing Federal Executive Board supporting all Federal Agencies in the Kansas City region.
- Accessible airport with non-stop flights around the country.

Research Centric:

- Access to economic data and resources through close proximity with the Kansas City Federal Reserve, which also houses a Census Research Data Center.
- The Kansas City Region is in close proximity to agricultural industrial areas with approximately 300 animal health companies employing 20,000 people.
- Within reasonable driving distance of multiple land-grant universities as well as top research universities such as Arkansas, Kansas, Kansas State, Missouri, Nebraska, Iowa, Iowa State, Saint Louis University, Washington University, Wichita State, Oklahoma and Oklahoma State.
- KC's tech sector is growing faster than the national average. In the past five years it has added 11,040 tech jobs demonstrating emphasis in STEM fields.

Assumptions

Relocation Timeline

USDA intends to transition employees from current locations in Washington D.C to the final selected location over a three-month period. The first 100 employees are planned to be relocated by August 1, 2019. The second wave of an additional 200 by September 1 and finally the remaining 247 by September 30. Table 2 illustrates this transition.

Table 2 – USDA Government Employee Transition

<i>Agency</i>	<i>1 Aug 19</i>	<i>1 Sept 19</i>	<i>30 Sept 19</i>
<i>NIFA</i>	50	+100	+144
<i>ERS</i>	50	+100	+103
<i>Total</i>	100	+200	+247

Government Staffing Costs

Table 3 provides a breakout of the 644 government employees between those employees staying and those relocating for each agency. Those employees staying were assumed to remain in the current agency’s location in Washington D.C.

Table 3 - USDA Government Employees Breakout - Staying and Relocating

<i>Agency</i>	<i>Employees Staying</i>	<i>Employees Relocating</i>	<i>Total Employees</i>
<i>NIFA</i>	21	294	315
<i>ERS</i>	76	253	329
<i>Total</i>	97	547	644

The number of employees in each general schedule (GS) category was location-independent. Average NIFA and ERS government civilian salaries were used to calculate costs for employees transitioning based on FY2019 OPM government salaries. Government employee benefits were equal to 31% of average NIFA⁴ and ERS⁵ government civilian salaries. Federally required cost-of-living-adjustments (COLA)⁶ for FY2019 were applied to the average NIFA and ERS government salaries after the benefit calculation. A 2% inflation rate was applied to government civilian salaries per fiscal year.

⁴ NIFA: <https://www.obpa.usda.gov/16ers2020notes.pdf>

⁵ ERS: <https://www.obpa.usda.gov/19nifa2020notes.pdf>

⁶ COLA:

Real Estate Costs

Table 4 provides the data used to calculate the commercial real estate costs for the each of the locations.

Table 4 - Real Estate Costs - Assumptions

<i>Costs</i>	<i>Assumption</i>
<i>Base rent costs</i>	Average market costs for specific location
<i>Annual lease amount</i>	Used square footage per year price in the EOI submission multiplied by required square footage of 120,000 for both agencies
<i>Operational expenses (OPEX)</i>	\$7.50 per square foot
<i>Fit-out costs – New location</i>	\$50 per square foot
<i>Fit-out costs – Temp space</i>	\$20 per square foot
<i>Tenant improvement (TI)</i>	\$40 per square foot
<i>Temp space requirement</i>	2.5 months (15 Jul to 1 Oct)
<i>Rent increase</i>	3% per GSA guidance
<i>OPEX increase</i>	2% per GSA guidance

Temporary Duty (TDY) Assignment

A budget of 32 flights (four flights a week for 8 weeks), 2019 GSA per diem rates, POV mileage to cover travel from the airport to residences, and \$50/day car rental were assumed for the 20 temporary employees arriving on July 1st.

Relocation costs for the 547 permanent transfers were modeled at \$50,000 per employee which included residential real estate costs (research and transaction costs), transportation of household goods, storage of household goods, temporary quarters, and employee / family travel. There were no assumptions around move-related attrition (and associated costs). Such assumptions can be updated upon receipt of declared intentions from Stay-Go employees.

Cost Analysis

As part of the final site analysis, USDA conducted a cost analysis on the top four short list locations to understand total relocation costs; understand total cost of operations at the proposed locations; and capture potential cost savings when compared to the status-quo. See table 5 for summary of costs and savings across the top four locations.

Table 5 - USDA Cost Analysis Summary: Net Present Value (NPV) – 15 Years

Categories	Status Quo	Kansas City	Alternate Location 1	Alternate Location 2	Alternate Location 3
Total staffing costs (NPV)	\$1,578,406,985	\$ 1,476,395,216	\$ 1,466,935,881	\$ 1,510,881,431	\$ 1,476,094,067
Total real estate costs (NPV)	\$131,934,921	\$ 40,236,651	\$ 52,558,495	\$ 50,462,413	\$ 41,411,150
Total cost (NPV)	\$ 1,710,341,906	\$1,516,631,867	\$ 1,519,494,376	\$ 1,561,343,844	\$1,517,505,217
Total savings (NPV)		\$ 193,710,039	\$ 190,847,530	\$148,998,062	\$ 192,836,689
% savings		11.33%	11.16%	8.71%	11.27%

- Applied a 5% discount rate to calculate net present value (NPV)
- Assumed full employment for both agencies starting on October 1, 2019
- Staffing costs for the status quo and locations were calculated using average NIFA and ERS FY2019 government salaries in accordance with FY2019 Office of Personnel Management (OPM) government salaries
- Real estate costs were calculated using the average square footage per year price, based on the EOI submissions and /or as modified during the site visits multiplied by the required square footage of 120,000 for both agencies
- Status-quo captured lease costs from the current locations for NIFA and ERS – Waterfront Centre, Washington D.C. and Patriots Plaza III, Washington D.C. respectively
- Includes annual salaries increase (2%); rent increase (3% per GSA guidance); and operational expenses (OPEX) increase (2% per GSA guidance)

Focusing on the selected location of the Kansas City Region, the length of time to recoup costs of relocation were calculated. One-time costs include relocation packages for employees and fit-out costs at the new facility. As shown in table 6 below, the upfront costs that are assumed to occur in the last quarter of FY 2019 are fully recouped before the end of FY 2021, or in about 22 months. The finding of a relatively short breakeven date still holds if some of the upfront costs spill over from FY 2019 to FY 2020. From that point forward, salary savings and reduced rent/lease and operating costs result in net savings that continue every year thereafter.

Table 6 - USDA Cost Analysis Summary: Annual Costs (nominal \$)*

		FY2019 - Q4 (Transition)	FY2020	FY2021	...	FY2034
<i>Status Quo</i> <i>Washington D.C.</i>	Total staffing costs	\$ 32,241,637	\$ 131,545,879	\$ 134,176,797	...	\$ 173,571,994
	Total real estate costs	\$ 2,048,364	\$ 10,501,482	\$ 10,794,711	...	\$ 15,463,156
	Total cost	\$ 34,290,001	\$ 142,047,361	\$ 144,971,508	...	\$ 189,035,150
	<i>Cumulative costs</i>	<i>\$34,290,001</i>	<i>\$ 176,337,362</i>	<i>\$ 321,308,870</i>	<i>...</i>	<i>\$ 2,501,635,910</i>
<i>Kansas City</i>	Total staffing costs	\$ 58,977,247	\$ 120,592,208	\$ 123,004,052	...	\$ 159,118,857
	Total real estate costs	\$4,478,538	\$ 2,923,185	\$ 2,999,690	...	\$ 4,205,481
	Total cost	\$ 63,455,785	\$ 123,515,393	\$ 126,003,742	...	\$ 163,324,338
	<i>Cumulative costs</i>	<i>\$ 63,455,785</i>	<i>\$ 186,971,178</i>	<i>\$ 312,974,920</i>	<i>...</i>	<i>\$ 2,201,814,277</i>
<i>Savings</i>	Annual savings	(\$ 29,165,784)	\$ 18,531,968	\$18,967,766	...	\$ 25,710,812
	<i>Cumulative savings</i>	<i>(\$ 29,165,784)</i>	<i>(\$ 10,633,816)</i>	<i>\$ 8,333,950</i>	<i>...</i>	<i>\$ 299,821,633</i>

*includes inflation rate increases

- Assumed full employment for both agencies starting on 1 October 2019
- Staffing costs for the status quo and locations were calculated using average NIFA and ERS FY2019 government salaries in accordance with FY2019 Office of Personnel Management (OPM) government salaries
- Real estate costs were calculated using the average square footage per year price, based on the EOI submissions and /or as modified during the site visits multiplied by the required square footage of 120,000 for both agencies
- Status-quo captured lease costs from the current locations for NIFA and ERS – Waterfront Centre, Washington D.C. and Patriots Plaza III, Washington D.C. respectively
- Includes annual salaries increase (2%); rent increase (3% per GSA guidance); and operational expenses (OPEX) increase (2% per GSA guidance)

Incentives

Detailed analysis is in progress to understand applicability of the incentive packages to the USDA. The largest and most robust incentives package offered providing on the top savings more than \$26 million dollars.

Other Considerations - OneNeighborhood:

After the publication of the request for EOIs to host ERS and NIFA, USDA continued its efforts to identify opportunities for consolidation of remaining USDA employees in the National Capital Region (NCR) to realize lease and security cost savings. As a result, on April 18, 2019, the Secretary announced USDA would undertake the OneNeighborhood initiative to improve collaboration within and between agencies by efficiently using space across the NCR. When completed, the modernized and reconfigured headquarters buildings are intended to accommodate nearly all NCR employees and will reduce dependence on costly leased space in the NCR saving agencies in leased space as much as \$40 million annually. The Department will be funding the modernization of the George Washington Carver Center (GWCC) and will assist in funding move costs within the NCR, so impacts on agency funding is expected to be minimal. USDA took into consideration this option in evaluation of ERS and NIFA relocation; however, determined it is not viable at this time due to unknown space constraints of other agencies within USDA.

Research & Non-Quantitative Benefits:

ERS' mission is to anticipate trends and emerging issues in agriculture, food, the environment, and rural America and to conduct high-quality, objective economic research to inform and enhance public and private decision making. NIFA's mission is to invest in and advance agricultural research, education, and extension to solve societal challenges. ERS and NIFA employees will have unique access to the Federal Reserve Bank of Kansas City, which is primarily responsible for monitoring the health of credit institutions for Rural America and offers unique collaboration opportunities with federal partners. The selection of the Kansas City Region is also enhanced by proximity to research capabilities and industry led initiatives like the KC Animal Health Corridor.

Additional Agency Capacity: With a reduction of operational costs over 11%, USDA will be able to reinvest these considerable savings into productivity and capacity building for both ERS and NIFA. For example, each \$1 million in savings equates to the value of 6-8 FTEs that would provide net new capacity available for research, 10-20 new cooperative agreements, or additional supporting data purchases. The programmatic development and growth enabled by these savings will significantly expand the reach and impact of both Agencies. Additionally, travel costs and lodging for peer review panels based in the Kansas City Region will be reduced significantly; grant overhead savings will be invested as additional funding opportunities for grant recipients.

New Agency Capabilities: There will be new opportunities to modernize and increase data transparency through ease of use of reporting systems, creation and improving real-time data gateways with enhanced tools for analysis, frequently needed reports and updating reporting systems. There also will be funding available from savings to modernize our grants systems and processes. These process improvements for efficient peer review and award management will allow us to meet a goal of reducing the time from the receipt of application to award with no more than 20% of agency funds carried over unobligated to the subsequent fiscal year.

Summary:

Based on those factors and the incentives offered by the four states, Secretary Perdue has selected the Kansas City Region as the new location for ERS and NIFA. The initial site visit selection team considered the four locations all suitable for relocation. Based on the cost analysis above, the location that offers the greatest annual savings to the U.S. taxpayer is the Kansas City Region, which will save approximately \$19 million per year in staffing and rent in as early as FY 2021. Those savings can be used to enhance mission delivery, reach and impact of ERS and NIFA in support of U.S. agriculture.