



GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

June 14, 2007

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Vice Chairman
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable James L. Oberstar
Chairman
The Honorable John L. Mica
Ranking Republican Member
Committee on Transportation and Infrastructure
House of Representatives

Subject: *National Transportation Safety Board: Observations on the Draft Business Plan for NTSB's Training Center*

The National Transportation Safety Board (NTSB) opened a training center in 2003 to train its investigators and others from the transportation community on accident investigation techniques. As we reported last year,¹ NTSB's training center is not cost-effective, as its revenues, when combined with the external training costs NTSB staff avoid by using the center, do not cover its costs. In fact, in fiscal year 2006, costs exceeded revenues by \$2.7 million. We concluded that potential strategies to increase revenues or decrease costs could increase the cost-effectiveness of the training center; however, vacating the space may be the strategy that reduces costs the most. As a result, we recommended that NTSB (1) develop a business plan to increase the utilization of its training center or vacate it and (2) submit the plan to Congress. On December 21, 2006, Congress passed Public Law 109-443, requiring NTSB to prepare a utilization plan for the training center that would, among other things, consider other revenue-generating measures, such as subleasing the training center to another entity; include a detailed financial statement covering current training center expenses and revenues and an analysis of the projected expenses and revenues; and submit the plan to us for review and comment within 90 days of passage of the act.

¹GAO, *National Transportation Safety Board: Progress Made, Yet Management Practices, Investigation Priorities, and Training Center Use Should Be Improved*, [GAO-07-118](#) (Washington, D.C.: Nov. 22, 2006).

NTSB prepared a draft business plan for the training center and provided the draft to us on March 28, 2007. We are mandated to review and comment on the draft plan so that NTSB can submit a final plan to Congress within 180 days of the enactment of Public Law 109-443. The draft plan provides an overall strategy to outsource to a vendor (1) the management and operations of the training center and (2) development of new courses. The vendor would be responsible for managing the facility and courses, and renting out unused space under a revenue-sharing arrangement with NTSB.² The plan projects yearly increases in the percentage of operating expenses (excluding rental costs) covered by revenue, with 100 percent coverage by the end of fiscal year 2010. The plan relies on marketing and financial data and assumptions to realize this objective. To fulfill this plan, NTSB solicited vendors through a request for proposal issued on April 18, 2007. NTSB expects to award the contract in August 2007 and the vendor to be operating at the training center within 30 days of the award of the contract.

In reviewing and commenting on the draft business plan, we are addressing the following questions: (1) To what extent are relevant marketing and financial data and assumptions included in the plan? (2) Based on the available information, is the plan likely to achieve its objective of self-sufficient operation of the training center by the end of fiscal year 2010? In addition, we assessed how the business plan could be improved and provide a list of suggested improvements in appendix II of enclosure I. To address these questions, we assessed NTSB's draft business plan and request for proposal using the opinions of internal GAO experts on financial management, contracting, training, and legal issues and two external experts on business plans and marketing. We also identified GAO reports and other literature for leading practices relevant to business plans and interviewed NTSB officials for further clarification and documentation of information contained in the plan and request for proposal. (See app. I of enclosure I for additional information on our methods.) We conducted our work from April 2007 through June 2007 in accordance with generally accepted government auditing standards.

On June 5, 2007, we provided information to NTSB on the results of this work. This report summarizes the information provided and officially transmits the slides used to provide the information to NTSB.

Summary

The business plan provides little rationale for its relevant marketing and financial data and assumptions. For example, the business plan includes certain marketing information but expects the market analysis and data to be provided by the vendor. In addition, the business plan presents some historical and projected financial data and calls for a revenue-sharing strategy with a vendor for the length of the contract but lacks explanations of important assumptions, such as a 10 percent growth in revenues. The plan also does not provide significant information about historical or

²The vendor would be paid for course development under a fee-for-services arrangement.

projected revenues and expenses of the training center, such as whether (1) expenses are presented as full cost, (2) salaries and benefits of NTSB staff used for teaching or developing courses are included in expenses, and (3) revenue includes an amount representing fees that NTSB staff attending the training center would pay if they were charged.

The business plan lacks sufficient data or analysis to determine whether it is likely to achieve its goal of recovering 100 percent of the training center's operating expenses by the end of fiscal year 2010. In addition, the time frame for receiving proposals from interested vendors has already been extended once, indicating that the ambitious time frames contained in the plan are questionable. Furthermore, even if the business plan achieves its goal of self-sufficient operations by the end of fiscal year 2010, substantial expenses, amounting to over \$2 million each year, will have to be covered by annual appropriations because the plan's definition of self-sufficiency excludes lease payments from expenses.

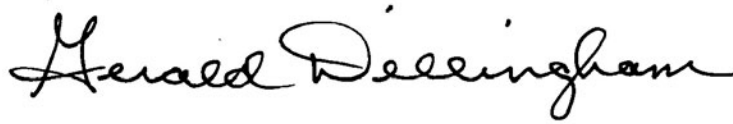
We conclude that the overall strategy presented in the business plan—to hire a vendor to operate the training center—is reasonable. However, the plan provided too little rationale for its marketing and financial assumptions for us to assess the viability of this strategy. Since the success of the plan relies on marketing and financial analyses that will be developed by the potential vendor, it will be important for NTSB to have staff in-house who are capable of assessing the reasonableness of that information or to hire outside expertise to do so.

Agency Comments

We provided copies of a draft of this report to NTSB for their review and comment. The agency provided written comments (see enclosure II). NTSB agreed with our suggestions for improving the plan. In addition, the agency provided technical clarifications, which we incorporated into the report as appropriate.

We are sending copies of this report to the Chairman of the National Transportation Safety Board and other interested parties. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-2834 or dillingham@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Teresa Spisak, Maren McAvoy, Sharon Dyer, David Hooper, and John Warner.

A handwritten signature in black ink that reads "Gerald Dillingham". The signature is written in a cursive style with a large initial "G" and "D".

Gerald L. Dillingham, Ph.D.
Director, Physical Infrastructure Issues

Enclosures

**Enclosure I: Information Provided to the
National Transportation Safety Board**



**Observations on the Draft Business Plan for the
National Transportation Safety Board's
Training Center**

Information Provided to the
National Transportation Safety Board

June 5, 2007

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Overview

- Background
- Objective, Research Questions, and Methods
- Marketing and Financial Data and Assumptions
- Likelihood of Financial Self-Sufficiency
- Concluding Observations
- Appendix 1 – Methods
- Appendix 2 – Suggestions for Improving the Business Plan

Enclosure I: Information Provided to the National Transportation Safety Board (cont'd.)



Background

- The National Transportation Safety Board (NTSB) opened a training center in 2003 to train its investigators and others from the transportation community on accident investigation techniques.
- In November 2006, we reported that training center revenues combined with external training costs NTSB staff avoid by using the facility do not cover the center's costs.¹
- Congress passed Public Law 109-443 on December 21, 2006, requiring NTSB to prepare a utilization plan for the training center that would, among other things, consider other revenue-generating measures, such as subleasing the training center to another entity; include a detailed financial statement covering current training center expenses and revenues and an analysis of projected expenses and revenues; and submit the plan to us for review and comment within 90 days of the passage of the act.
- In response, NTSB prepared a business plan for the training center and provided the plan to GAO on March 28, 2007. GAO is mandated to review and comment on a draft of the plan so that NTSB can submit a final plan to Congress within 180 days of the enactment of Public Law 109-443.

¹GAO, *National Transportation Safety Board: Progress Made, Yet Management Practices, Investigation Priorities, and Training Center Use Should Be Improved*, GAO-07-118 (Washington, D.C.: Nov. 22, 2006).

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Background

Overview of Business Plan

- The business plan provides an overall strategy of outsourcing to a vendor the (1) management and operational activities of the training center and (2) development of new courses. The facility management and subleasing and course management are under a revenue sharing arrangement, while course development will be a fee-for-services arrangement.

- The plan projects yearly increases in the percentage of operating expenses (excluding rental costs) covered by revenue, with 100 percent coverage by the end of fiscal year 2010. The business plan relies on marketing and financial data and assumptions to forecast the realization of this objective.

- Vendors were solicited through a request for proposal issued on April 18, 2007. NTSB expects to award the contract in August 2007 and the vendor to become operational at the training center within 30 days of the award of the contract.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Objective, Research Questions, and Methods

Objective

To review and comment on the quality and viability of NTSB's draft business plan for the training center.

Research Questions

1. To what extent are relevant marketing and financial data and assumptions included in the plan?
2. Based on the available information, is the plan likely to achieve its objective of self-sufficient operation of the training center by the end of fiscal year 2010?

In addition, we assessed how the business plan could be improved and provide a list of suggested improvements in appendix II.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Objective, Research Questions, and Methods

Methods

- We assessed NTSB's draft business plan and request for proposal using the opinions of GAO experts on financial management, contracting, training, and legal issues and two external experts on business plans and marketing.
- We also identified GAO reports and other literature for leading practices relevant to business plans and interviewed NTSB officials for further clarification and documentation of information contained in the plan and proposal.
- See appendix I for more information on our methods.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



1. To what extent are relevant marketing and financial data and assumptions included in the plan?

The business plan includes certain **marketing** information, but NTSB told us it expects the market analysis and data to be provided by the vendor.

- The business plan identifies groups of potential customers (e.g., NTSB staff, active duty military, other federal agency employees, and the emergency response community).
- However, the portions of these groups that are potential customers are not justified. For example, the plan assumes 1 percent of active duty military are potential customers but does not explain the rationale for that percentage, such as the number of active duty military who are involved in accident investigation.
- In addition, the plan does not explain the portion of potential customers that the training center needs to capture to achieve the revenue projection.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



1. To what extent are relevant marketing and financial data and assumptions included in the plan?

Marketing (cont.)

- The business plan assumes a 10 percent growth in enrollment but lacks an explanation or justification to support that assumption. Moreover, our analysis of historical enrollment information indicates that enrollment dropped 24 percent from 2005 to 2006.

- The business plan lists marketing approaches, such as the use of mailing lists and exhibitions at conferences and trade shows, but lacks a strategy based on identification of the target market and other marketing approaches.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



1. To what extent are relevant marketing and financial data and assumptions included in the plan?

Marketing (cont.)

- The business plan describes four relevant institutions that offer either a partially or fully competing service, but the plan lacks a competitive analysis that discusses how the training center will compete with these institutions.

- The business plan identifies the training center's competitive advantage as its ability to use NTSB investigators as instructors but indicates their use will be limited, consistent with congressional concerns. Since contractors rather than NTSB investigators would be the primary instructors, the training center loses its competitive advantage, which could impact revenues.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



1. To what extent are relevant marketing and financial data and assumptions included in the plan?

The business plan presents some historical and projected **financial** data but lacks explanations of important assumptions.

- The plan does not provide significant information about historical or projected revenues and expenses of the training center, such as whether (1) expenses are presented as full cost, (2) salaries and benefits of NTSB staff used for teaching or developing courses are included in expenses, and (3) revenue includes an amount representing fees that NTSB staff attending the training center would pay if they were charged.

- The plan assumes a 10 percent annual increase in projected revenues based on historical revenues. However, from fiscal year 2005 to fiscal year 2006, earned revenues increased only 3 percent, according to our analysis of information presented in the plan.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



1. To what extent are relevant marketing and financial data and assumptions included in the plan?

Financial (cont.)

The business plan calls for a revenue-sharing strategy with a vendor for the length of the contract.

- The plan lacks details on the percentage split for revenue sharing, leaving that to be presented by potential vendors in their proposals. This is a reasonable omission from the plan.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



2. Based on the available information, is the plan likely to achieve its objective of self-sufficient operation of the training center by the end of fiscal year 2010?

The plan lacks sufficient data or analysis to determine whether it is likely to achieve its goal of recovering 100 percent of the training center's operating expenses (excluding rental costs) by the end of fiscal year 2010. In certain cases, the limited information provided suggests the plan will not be successful.

- Projected revenues in the plan may be overestimated due to the use of a 10 percent growth rate while past growth has been much lower.
- Without a more in-depth and verifiable market analysis, the reasonableness of the projected expenses cannot be determined.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



2. Based on the available information, is the plan likely to achieve its objective of self-sufficient operation of the training center by the end of fiscal year 2010?

Because the plan's definition of self-sufficiency excludes lease payments, about two-thirds of training center expenses are not projected to be covered by revenues.

- While Public Law 109-443 calls for NTSB to develop a plan to achieve, to the maximum extent feasible, "the self-sufficient operation" of the training center, it does not define "self-sufficient."
- The mandate does not state whether achieving a "self-sufficient operation" would include making lease payments for the training center from training center revenues.
- The business plan defines self-sufficiency as covering 100 percent of the training center's operating expenses with training center revenues by the end of the third full year of the vendor contract. The plan excludes lease payments (i.e., space rental) from expenses.
- As a result, an average deficit of \$2,500,000 per year is not covered by the business plan, as shown on the next slide.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



2. Based on the available information, is the plan likely to achieve its objective of self-sufficient operation of the training center by the end of fiscal year 2010?

Statement of Estimated Revenues and Expenses, FYs 2007-2010

	Period Ending Sept. 30, 2007 Estimate	Period Ending Sept. 30, 2008 Estimate	Period Ending Sept. 30, 2009 Estimate	Period Ending Sept. 30, 2010 Estimate
<i>Gross costs:</i>				
Salary and Benefits	\$597,849	\$615,784	\$634,258	\$653,286
Other non-Space Rental				
Operating Expenses	\$466,000	\$479,980	\$494,380	\$509,211
Facility Enhancements	\$200,000	\$150,000	\$100,000	\$100,000
Subtotal, Operating Expenses	\$1,263,849	\$1,245,765	\$1,228,638	\$1,262,497
Not covered by current calculations → Space Rental	\$2,288,073	\$2,356,715	\$2,427,416	\$2,500,239
Total Gross Costs	\$3,551,922	\$3,602,480	\$3,656,054	\$3,762,736
Less: Earned revenue	(\$952,145)	(\$1,047,360)	(\$1,152,095)	(\$1,267,305)
Deficit/(Surplus)	\$2,599,777	\$2,555,119	\$2,503,959	\$2,495,431
Percent of Operating Expenses Covered by Revenue	75%	84%	94%	100%

Source: NTSB.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



2. Based on the available information, is the plan likely to achieve its objective of self-sufficient operation of the training center by the end of fiscal year 2010?

The time frames of the plan may not be reasonable.

- The plan calls for the recovery of operating expenses by the end of fiscal year 2010, with the vendor's first full fiscal year to provide services beginning in fiscal year 2008. This is an extremely ambitious undertaking.
- NTSB has already extended once the time frame for receiving proposals from interested vendors. This, along with our experts' opinion, shows that the current success-oriented, aggressive time frame for hiring the vendor and completing the transition of the training center's facility operations and training is questionable.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Concluding Observations

- The overall strategy presented in the business plan—to hire a vendor to operate the training center—is reasonable and responsive to congressional concerns that NTSB limit the levels of investigative resources used to support the training center. Nonetheless, the plan does not reflect consideration of subleasing the entire facility to another entity as required by Public Law 109-443. An explanation of NTSB’s decision not to address this option would enhance the rationale for using a vendor.

- While the success of the business plan depends on the vendor’s performance, the plan provides insufficient rationale for marketing and financial information to assess the viability of this strategy.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Concluding Observations

- Since the success of the business plan relies on the marketing and financial analyses to be developed by the potential vendor, it will be important for NTSB to have in-house the ability to assess the reasonableness of that information or to hire outside expertise to do so, if necessary.

- Even if the business plan achieves its goal of self-sufficient operations by the end of fiscal year 2010, substantial expenses with regard to the training center's lease payments amounting to about \$2.5 million dollars each year will have to be covered by annual appropriations.

- The quality and viability of the plan could be improved by including more detailed marketing and financial information, and the logic and clarity of the plan could be improved by reorganizing the information presented.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Appendix I – Methods

To analyze the extent to which relevant marketing and financial data and assumptions were included in NTSB's draft business plan, we assessed the plan and request for proposal using the opinions of GAO experts on financial management, contracting, training, and legal issues and two external experts on business plans and marketing. We also assessed the business plan according to the requirements of Public Law 109-443. In addition, we identified GAO reports and other literature for leading practices relevant to business plans and interviewed NTSB officials for further clarification and documentation of information contained in the plan and proposal.

To determine the extent to which the plan is likely to achieve its objective of the self-sufficient operation of the training center based on the available information, we consulted with GAO financial experts and our external experts to review the underlying assumptions upon which the financial projections were based. We reviewed NTSB's financial statements to determine whether the results of projected revenues and expenses were realistic. We also interviewed NTSB officials.

To analyze what could improve the business plan, we consulted with GAO and our external experts to suggest improvements to the marketing and financial data and assumptions. The experts also assisted in identifying organizational changes to improve overall presentation of the business plan to enhance logic and clarity.

We conducted our review from April 2007 to June 2007 in accordance with generally accepted government auditing standards.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Appendix II – Suggestions for Improving the Business Plan

*1. Consider revising the **marketing** information to include:*

- An overview and goals of the marketing strategy and a plan for assessing marketing effectiveness.
- Disclosure of the basis for all market assumptions, such as the current plan's assumption that 1 percent of active duty military are potential customers.
- Justification to support any projected growth in enrollment.
- A specific strategy for gaining market share through approaches such as the use of mailing lists and exhibitions at conferences and trade shows.
- A competitive analysis that explains how the training center will compete with the four institutions identified as offering similar courses.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Appendix II – Suggestions for Improving the Business Plan

*2. Consider revising the **financial** information to include:*

- Detailed statements of net costs, balance sheets, and cash flow statements for 3 historical and 5 forecast years, and a break-even analysis using a daily tuition rate assumption (operation and rent excluded in this case).
- Categories of costs that are material—i.e., more than 5 percent of total cost—for any period shown separately for all periods.
- Discussion of primary causes for changes in annual training center revenues and expenses since 2004, actual and forecast.
- Identification of whether the financial information is presented on an accrual basis or a cash basis and consistent presentation throughout the plan.
- Annual revenues shown by type (e.g., break out revenues by rental space, course revenue, and continuity of operations plans).
- Explanation of whether costs to vacate NTSB's headquarters' space or regional office space at the training center are included or credited overall.
- Discussion of how price elasticity supports any expected annual growth in revenue.
- The percentage of revenue sharing once a vendor has been selected.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Appendix II – Suggestions for Improving the Business Plan

*2. Consider revising the **financial** information to include: (cont.)*

- Disclosure of whether financial information is full cost or description of items precluding full cost presentation.
- Disclosure of whether salaries and benefits of NTSB staff used for teaching or developing courses are included in costs.
- Details of significant financial data for historical or projected revenues and expenses of the training center, such as whether (1) expenses are presented as full cost, (2) salaries and benefits of NTSB staff used for teaching or developing courses are included in expenses, and (3) revenue includes an amount representing fees that NTSB staff attending the training center would pay if they were charged.
- Assumptions used in preparing the forecast, such as imputed revenue for NTSB staff attendance at the training center and the projected revenue increase of 10 percent.
- Analysis of the level of attendance required to achieve the projected course revenue each year.
- Details on curriculum offerings, enrollments, revenues, and expenses needed to meet the revenue-sharing goal.

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Appendix II – Suggestions for Improving the Business Plan

*3. Consider reorganizing the **overall presentation** of the business plan to improve logic and clarity.*

Plan currently contains the following sections:

- Executive Summary, Background, Business Plan Concept of Operations, Justification for Contracting Out Operational Support of the Training Center, Benefits, Acquisition Program Concepts and Implementation, Risk Mitigation, Reporting Requirements, Appendixes

Consider revising sections to include the following:

- Executive Summary, Organizational Plan, Transition and Management, Marketing Plan, Notional Schedule (Timeline), Reporting Requirements, Financial Documents, Supporting Documents

**Enclosure I: Information Provided to the
National Transportation Safety Board (cont'd.)**



Appendix II – Suggestions for Improving the Business Plan

4. In the **revised sections**, consider including this additional information:

- **Organizational Plan section:** An analysis of strengths, weaknesses, opportunities, and threats to clarify why the training center needs to be more effectively utilized and more cost-effective.
- **Transition and Management section:** Detail the transition, how it will be managed, how the new model will result in the desired outcome, and why an outside vendor would be in a better situation to run the facility profitably.
- **Notional Schedule section:** Explain revised dates such as extending the deadline for the receipt of proposals from May 18, 2007, to June 4, 2007.
- **Supporting Documents section:** A copy of the proposed contract that would be negotiated with the selected vendor, NTSB's lease with George Washington University for the training center, and research documents.

Enclosure II: Comments from the National Transportation Safety Board



National Transportation Safety Board

Washington, D.C. 20594

Office of the Managing Director

June 8, 2007

Gerald L. Dillingham, Ph. D.
Director, Civil Aviation Issues
Physical Infrastructure
Government Accountability Office
441 G Street, N.W., Room 2T23B
Washington, D.C. 20548

Dear Dr. Dillingham:

Thank you for the opportunity to comment on your draft report entitled *National Transportation Safety Board: Observations on NTSB's Draft Business Plan for its Training Center*. We agree with your suggestions for improving our business plan and we will work quickly to adjust the document accordingly.

The National Transportation Safety Board (NTSB) has worked diligently to address Congressional concerns expressed about the Training Center, and our business plan details our continuing efforts in that regard. We are pleased that you recognized and agreed that our overall strategy of competitively awarding a contract to operate the training center is reasonable and responsive. As you know, our desired outcome is for a vendor to offset operating costs by increasing revenue through the collection of fees from rentals of the facility.

Thank you again for providing the NTSB with the opportunity to comment on your draft report. Your comments and thoughtful recommendations are important to us and will be invaluable as we finalize our business plan. I am pleased that, once again, our agencies have worked together constructively in the spirit of good government. If you have any questions, please feel free to contact me on (202) 314-6068.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Osterman".

for Joseph G. Osterman
Managing Director

(540152)