item is considered marginal and need not be reduced.

[41 FR 3858, Jan. 27, 1976]

### § 101–27.303–1 Cancellation or transfer.

When the long supply of an item, including quantities due in from procurement, is greater than 10 percent of the total stock of that item, the inventory manager, or other appropriate official, shall cancel or curtail any outstanding requisitions or procurements on which award has not been made for such items, and may also cancel contracts for such items (if penalty charges would not be incurred) or transfer the long supply, if economical, to other offices within the agency in accordance with agency utilization procedures. In such cases, acquisition of long supply items shall not be made from other sources such as requirements contracts.

### § 101–27.303–2 Redistribution.

If the long supply of an item remains greater than 10 percent of the total stock of an item despite efforts to cancel or transfer the long supply as provided in § 101–27.303–1, the inventory manager shall offer the long supply to another agency or other agencies in accordance with this § 101–27.303–2. Before offering a long supply to any agency, the inventory manager shall determine whether the item to be offered is a centrally managed item or an agency managed item. A centrally managed item is an item of supply or equipment which forms part of an inventory of an agency performing a mission of storage and distribution to other Government activities; e.g., GSA and DSA. An agency managed item is a procured item that forms a part of a controlled inventory of an agency and its activities for issue internally for its own use. After determining whether the item to be offered is an agency or centrally managed item, the inventory manager shall:

(a) Offer centrally managed items to the agency managing the item for return and credit in accordance with the procedures established by that agency; and

(b) Offer agency managed items to other agencies which manage the same item. Reimbursement shall be arranged by the agencies effecting the inventory transfer. The responsibility of locating agencies or activities requiring these items shall rest with the agency holding the long supply. However, agencies may receive a list of Government activities using particular national stock numbers by writing to the General Services Administration (FFL), Washington, DC 20406.

[32 FR 13456, Sept. 26, 1967, as amended at 41 FR 3858, Jan. 27, 1976]

### § 101–27.304 Criteria for economic retention limits.

If a long supply continues to exceed 10 percent of the total stock of an item despite efforts to redistribute the long supply as provided in § 101–27.303–2, the inventory manager shall establish an economic retention limit for the item in accordance with the provisions of this § 101–27.304. An economic retention limit is the maximum quantity of an item that can be held in stock without incurring greater costs for carrying the stock than the costs for disposal and resulting loss of investment. The economic retention limit shall be used to determine which portion of the inventory may be economically retained and which portion should be disposed of as excess.

[41 FR 3858, Jan. 27, 1976]

### § 101–27.304–1 Establishment of economic retention limit.

An economic retention limit must be established for inventories so that the Government will not incur any more than the minimum necessary costs to provide stock of an item at the time it is required. Generally, it would be more economical to dispose of stock in excess of the limit and procure stock again at a future time when the need is more proximate rather than incur the cumulative carrying costs.

(a) The agency managing a centrally managed or agency managed item shall establish an economic retention limit so that the total cumulative cost of carrying a stock of the item (including interest on the capital that is tied up in the accumulated carrying costs) will be no greater than the reacquisition cost of the stock (including the procurement or order cost). Consideration should be given to any significant net return that might be realized from present disposal of the stock. Where no information has been issued, the net return from disposal is assumed to be zero. Guidelines for setting stock retention limits are provided in the following table and explanatory remarks that follow:

| Annual carrying costs as a percentage of item reacquisition costs | Economic retention limit in years of supply—net return on disposal as a percentage of item reacquisition costs | | | | |
|---|---|---|---|---|---|
| | 0 | 5 | 10 | 15 | 20 |
| 10 | 7¼ | 6¾ | 6¼ | 6 | 5½ |
| 15 | 5½ | 5 | 4¾ | 4¼ | 4 |
| 20 | 4¼ | 4 | 3¾ | 3½ | 3¼ |
| 25 | 3½ | 3¼ | 3 | 3 | 2¾ |
| 30 | 3 | 2¾ | 2¾ | 2½ | 2¼ |
| 35 | 2¾ | 2½ | 2¼ | 2¼ | 2 |
| 40 | 2½ | 2¼ | 2 | 2 | 1¾ |

NOTE: The entries in the tables were calculated by determining how long an item must be carried in inventory before the total cumulative carrying costs (including interest on the additional funds that would be tied up in the accumulated annual carrying costs) would exceed the acquisition costs of the stock. at that time (reacquisition costs). For example, assuming no net return from disposal, the accumulated carrying costs computed at the rate of 25 percent per year on the reacquisition cost of the stock and compounded annually at 10 percent (GSA's recommended rate of interest on Government investments) would be:

| Years | Compounded carrying costs as a percentage of reacquisition | Accumulated costs as a percentage of reacquisitioned costs |
|---|---|---|
| 1 | 27.5 | 27.5 |
| 2 | 30.3 | 57.8 |
| 3 | 33.3 | 91.1 |
| 4 | 36.6 | 127.7 |
| 5 | 40.3 | 168.0 |
| 6 | 44.3 | 212.3 |

At 25 percent a year, accumulated carrying costs would be equivalent to the reacquisition costs after 3½ years. Three and one-half years is, therefore, the economic retention limit for items with a 25 percent annual carrying cost rate. Where an activity has not yet established an estimate of its carrying cost, an annual rate of 10 percent may be used as an interim rate thereby resulting in an economic retention limit of 7¼ years when the net return on disposal is zero. The elements of carrying (holding) cost are given in the GSA Handbook, The Economic Order Quantity Principle and Applications. The handbook is listed in the GSA Supply Catalog and may be ordered in the same manner as other items in the catalog.

(b) The economic retention limit at a user stocking activity can best be determined by the item manager (for centrally managed or agency managed items) on the basis of overall Government requirements and planned procurement. Since stocks in long supply at a user stocking activity are less likely to find utilization outlets, the retention limit at these activities should be relatively small. Generally the economic retention limit at a user stocking activity should be computed in the same manner as in paragraph (a) of this section and then reduced by 70 percent.

[39 FR 27902, Aug. 2, 1974]

**§ 101–27.304–2 Factors affecting the economic retention limit.**

(a) The economic retention limit may be increased where:

(1) The item is of special manufacture and relates to an end item of equipment which is expected to be in use beyond the economic retention time limit; or

(2) Costs incident to holding an additional quantity are insignificant and obsolescence and deterioration of an item are unlikely.

(b) The economic retention limit should be reduced under the following conditions:

(1) The related end item of equipment is being phased out or an interchangeable item is available; or

(2) The item has limited storage life, is likely to become obsolete, or the age and condition of the item does not justify the full retention limit.

**§ 101–27.305 Disposition of long supply.**

Where efforts to reduce the inventory below the economic retention limit have been unsuccessful, appropriate disposition should be effected in accordance with subpart 101–43.3 of this chapter. Any remaining inventory which is within the economic retention limit shall be retained. However, the item shall be reviewed at least annually and efforts made to reduce the long supply inventory in accordance with § 101–27.303.