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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
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STATEMENT OF
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BEFORE THE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS SEN06/00
UNITED STATES SENATE

ON

[S. 2080, TO ESTABLISH PUBLIC BUILDINGS POLICIES
~~FOR THE FEDERAL GOVERNMENT,~~ TO ESTABLISH *and*
~~THE PUBLIC BUILDINGS SERVICE~~] ~~IN THE GENERAL~~
~~SERVICES ADMINISTRATION, AND FOR OTHER PURPOSES~~

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Mr. Chairman and Members of the Committee:

We are pleased to appear before you to give you our comments on S. 2080, referred to as the Public Buildings Act ¹⁰ of 1979. This legislation would make a number of revisions in the way the General Services Administration ¹⁷ (GSA) conducts its public buildings program. Among other things, it would revise the method of financing public buildings construction, reduce the number of Federal employees in leased space, and require emphasis on, and disclosure of, GSA's long range planning for its buildings program.

We are pleased that a number of the bill's required revisions in GSA's public buildings program are consistent with recommendations contained in our prior reports. It is primarily in the context of our prior work involving GSA's public buildings program that we would like to address certain of the provisions of the proposed legislation.

Your letter of January 18, 1980, was received by our office on January 21. Due to the short time frame available to us to prepare our testimony, we may wish to meet with Committee staff at a later date to discuss additional revisions which may be needed to assure that the intent of the bill is clearly disclosed.

FINANCING

The proposed legislation would authorize GSA to borrow funds from the Treasury ³⁸ to finance acquisition, construction, and renovation of public buildings. Further, it is our understanding that section 901 is intended to amend the

criteria under which GSA assesses annual rental charges to Federal agencies to make clear that such charges should recover the costs of financing and operating or leasing each building and should, to the maximum extent, underwrite the Public Buildings Service budget.

In October 1979, we reported (LCD-80-7) on the cost and budgetary impact on acquiring space by direct Federal construction, by borrowings and by leasing and we concluded that Federal construction is the most advantageous alternative for financing space acquisition. Borrowing money for construction is the most practicable alternative currently available because only limited funds have been available from the Federal Buildings Fund for construction. As an alternative leasing has the least favorable long range budgetary impact.

We analyzed Federal Buildings Fund cash receipts and outlays under direct Federal construction, borrowing primarily from private sources (purchase contracting), and leasing. Our analysis shows that:

- During the early years of building life, only leasing provides a positive cash flow (receipts in excess of outlays) for the Federal Buildings Fund.
- Beyond the early years of building life, direct Federal construction provides the largest cumulative cash flow for the Federal Buildings Fund.

--Over the entire building life, borrowing to finance construction provides a substantially larger cumulative cash flow than leasing, and direct Federal construction provides a larger cumulative cash flow than either leasing or purchase contracting.

We recommended in our report that, if the Congress wants to provide GSA with a financing alternative to direct Federal construction and leasing, it should limit the agency's financing authority to direct loans from either the Treasury or the Federal Financing Bank. We also recommended that if the Congress expects the Government to continue to pay local real estate taxes and the Fund to provide adequate resources for construction, it should offset the adverse impact by making separate appropriations to GSA for taxes or direct appropriations to the Fund to cover tax payments.

We are pleased that the committee has accepted the thrust of our recommendation in Section 903, which authorizes the Administrator to borrow from the Treasury for periods up to 30 years to construct public buildings.

Full Funding Concept

Under the provisions of this legislation, when GSA borrows from the Treasury, it will make annual payments of interest and amortization of principal. It is our understanding that the total amount of the borrowings would not be recorded as budget authority in the first year. Rather, the annual payment each year would be recorded as budget authority over the 30 years.

As a matter of budget policy, we favor the full funding concept because it requires recording in the budget the total project cost as budget authority in the first year. Funds have not been available from direct appropriations, consequently, if the Government is to have a viable building program, perhaps full funding is not practical.

In our view the manner in which leases are currently handled does not provide the Congress with the advantages of the full funding concept either. The total rental payments on leases (up to 20 years in some cases) to which the Government is committed, are much greater than the annual lease payment that appears as budget authority in the annual appropriation act. For example, for fiscal year 1979, only the annual lease payment of over \$500 million appears as budget authority in the annual appropriation act, yet the Government is committed to more than \$2 billion over the remaining life of those same leases.

Annual Rental Charges
to Agencies

Also in connection with financing, Section 901 states that rental charges paid by agencies to GSA shall be established at a level of anticipated costs of providing space and services (including amortized construction or leasing costs). It further states that if these charges are greater than the comparable commercial rate, the agencies' rate shall not exceed the comparable commercial rate.

It's not clear to us what construction costs would be amortized. Presumably, for a Government-owned building, fully amortized, GSA would be permitted to establish the rental charge based on the operating cost of the building plus some administrative costs. These costs would be significantly lower than comparable rates as now established under Section 210 (j) of the Federal Property and Administrative Services Act of 1949.

Therefore, the rents for agencies located in these type buildings would be reduced from the rates being collected currently. Under the current legislation, these fully amortized Government-owned buildings generally generate a sizable positive cash flow in the Federal Buildings Fund. While these buildings generate a sizable positive cash flow, overall, the Fund does not generate enough funds to meet operating and capital requirements. Under the proposed legislation, the Federal Buildings Fund's ability to meet operating and capital requirements would be further impaired since rent income on the Government-owned, fully amortized buildings will be reduced.

In our view, if the Committee wishes to make the public buildings program self-sustaining, the language of Section 901 should be reexamined and restated.

For fiscal years 1975 through 1977 some of the rates established by GSA pursuant to the 1972 law were inequitable and were criticized by tenant agencies and various congressional committees. Since fiscal year 1978, GSA rates are

based on building appraisals which are changed every 3 years. While we recognize that appraisals are estimates of value based in part on judgments and opinions of independent appraisers, in our opinion, they do provide a reasonable basis for establishing comparable commercial rates as required by the law.

LEASING

Because the money for construction, either through direct appropriation or through the Federal Buildings Fund has been limited, GSA has relied on leasing as the only practicable means of obtaining needed space. From fiscal years 1966 through 1979, although leased space has more than doubled and the cost of leased space has more than tripled, there has been no appreciable increase in Government-owned space.

This legislation is designed to set limits on leasing for the purpose of emphasizing a more viable Federal construction program and thereby reducing the Government's reliance on leased space. This Committee, the House Committee on Public Works and Transportation, and other committees have for many years advocated more Federal construction as the means of obtaining space for the Federal Government.

We stated in our October 1979 report that on the basis of budgetary impact, over the entire building life, leasing is the least desirable alternative of acquiring space. Direct Federal construction provide a larger surplus for the

Fund than both leasing and constructing with borrowed funds, although constructing with borrowed funds is more desirable than leasing. We could not compare fully the costs of federal construction with leasing because of differences in building quality and cost. In general, however, federally constructed buildings provide higher quality space and entail lower interest rates on construction capital than leased buildings.

In view of the higher costs of long-term leasing of space, we are in agreement with the intent of the legislation to eliminate the projects in which the Government pledges to lease, usually on a long term, a building to be built by private interest and with the intent to reduce the number of Federal officers and employees in leased space.

In connection with Section 702, which establishes the goal of placing no fewer than 60 percent of the Federal officers and employees in public buildings within 5 years of the date of enactment of S. 2080, we believe this goal may be overly optimistic.

It is our understanding that more than one-half of the Federal workforce is now in leased space. Based on GSA's current plans, there is no substantial construction program that would provide sufficient space to move more than 10 percent of the Federal workforce from leased space to Government-owned space during the next 5 years. Also, with the passing of this legislation, before GSA can provide Government-owned space, it must obtain congressional

authorization, acquire sites, design and construct the needed buildings. Based on past experience, even if the authorization and financing time frames are excluded, the physical time frame to acquire a building through construction has taken 5 or more years in many cases.

In order to comply with this section GSA must design an orderly phase out, keeping in mind those leases that will expire and those that can or cannot be terminated to avoid transferring personnel from spaces for which rent will continue to run.

Another factor that might impact on GSA's ability to meet this goal is the number of personnel to whom leased space is provided because the size of the Government activities does not warrant providing a public building. The number of employees in this category could have some impact on the percentage established for housing in Government-owned space.

PROGRAM AUTHORIZATION
AND PLANNING

The proposed bill would require GSA to submit to the Congress each year a program for construction, renovation, acquisition, maintenance, and leasing for the next fiscal year together with a 5-year plan for accommodating Federal agencies' public buildings needs. GSA would receive annual line item authorizations from the Congress to carry out its program during the next year.

The proposed authorization and planning procedure is an improvement over the current prospectus authorization procedure now in effect wherein projects are approved individually on a piece-meal basis, without prioritization. The proposed procedure should provide the Congress with better overview and visibility over GSA's entire buildings program. It should also improve space planning.

In prior reports we have commented on deficiencies in GSA's space planning and lease alterations. We have concluded that GSA should allow sufficient time prior to lease expiration for developing alternative space plans. In three of our reports we commented on seven cases where GSA paid rent of about \$3.5 million before leased buildings were available for occupancy. This situation can be attributed in part to poor space planning.

With respect to alterations, GSA spends sizable funds on leased building alterations. We estimated that in one year expenditures for lease alterations exceeded \$36 million. We reported that there were numerous deficiencies in contracting for these alterations and that GSA had too much flexibility in funding the work.

There is no current requirement in law for GSA to either obtain prior congressional approval of, or to report on, alteration projects in leased buildings even if the cost of the alteration projects exceed \$500,000 each. The law does require prior approval for alteration in Government-owned buildings over \$500,000. We concluded that alterations to

a leased building requires closer scrutiny because they (1) may increase the value of the leased building which the Government does not own and (2) weaken the agency's negotiating position for follow-on leases.

We recommended in a prior report (LCD-78-338) that the Congress should amend the Public Buildings Act of 1959 to require congressional authorization of alterations to leased space which involve a total expenditure in excess of \$500,000.

The proposed bill would provide for annual line item authorization for alterations to leased buildings. This provision is consistent with our prior recommendation in that it provides the Congress with visibility over alterations in leased space.

Leasing space for major
computer operations

In our September 1978 report we pointed out that GSA spent considerable amounts of money for alterations of leased space for computer facilities. This legislation prohibits the leasing of space to accommodate major computer operations.

While we agree that, by denying GSA the authority to lease facilities for major computer operations will preclude the expenditure of large sums of money which cannot be recovered when the lease term ends, we are of the opinion that in some situations leasing of space for major computer operations may be feasible. For example, it would not be practical to put off an urgent requirement for a computer because Government-owned space is not available. Also,

since GSA now has computer operations in leased facilities, it may not be practical or feasible to accomodate these computer operations in Government-owned facilities rather than permit GSA to negotiate a follow-on lease. Some consideration should be given to these existing leases.

URBAN POLICY

This legislation, (Section 202A), provides that all Headquarters of Federal agencies are to be located in the Washington, D.C., area or the metropolitan Washington, D.C., area unless otherwise specified in law. The legislation (202B) further provides that other agency offices which are to be located outside of Washington, D.C., should be evenly distributed in proportion to the geographic distribution of the nations population.

In contrast, the President's national urban policy announced in March 1978 encourages the relocation of Federal activities to central business areas of the Nation's distressed cities. GSA has a nationwide policy of relocating Federal facilities to the central areas of cities, regardless of whether the cities have been identified as distressed.

Also, GSA has a policy included in its space management regulation which is based on Office of Management and Budget Circular A-60. The policy encourages decentralization from Washington.

We cannot evaluate the impact this legislation will have on GSA's space management policy but we are aware of the conflicting nature of the policy and feel that it could be counterproductive to this legislation.

Possible Oversight in
Complete Repeal of the 1959 Act

The proposed bill would repeal the Public Buildings Act of 1959, as amended, in its entirety. Section 18 of the 1959 act authorizes the District of Columbia to provide for the development, construction, operation, and maintenance of the Dwight D. Eisenhower Memorial Bicentennial Civic Center. It may not have been the intent of the proposed bill to delete this section.

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Mr. Chairman, this concludes my statement. My associates and I will be happy to respond to any questions you or any member of the committee may have at this time.