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UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON MILITARY INSTALLATIONS AND FACILITIES H 503

COMMITTEE ON ARMED SERVICES

HOUSE OF REPRESENTATIVES

ON THE

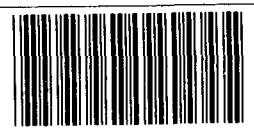
[STANDARD LEVEL USER CHARGES

ASSESSED TO THE

~~DEPARTMENT OF DEFENSE~~ DOD 5

BY THE GSA]

GENERAL SERVICES ADMINISTRATION 17



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Mr. Chairman and members of the Subcommittee:

We are pleased to appear before you to discuss our November 7, 1979, report on the Standard Level User Charges assessed to the Department of Defense by the General Services Administration. We made this review because the Subcommittee was concerned about comments it had received from DOD indicating that the Standard Level User Charges Program was not achieving its intended objectives and that DOD was not receiving equitable treatment in its administration. Our study was designed to provide the Subcommittee information on the procedures followed by GSA in computing rental rates and on the reasonableness of the rental charges made to DOD.

The Public Buildings Amendments of 1972 (Public Law 92-313), which established the Federal Buildings Fund, also authorized GSA to charge agencies a standard level user charge for GSA-controlled space they occupy and services they receive. According to the law, the charges assessed to the agency for space should approximate commercial charges for comparable space and services. The law, however, does not contain any criteria or guidance for computing comparable commercial rates.

Throughout the legislative process leading to the enactment of Public Law 92-313, GSA officials testified in support of a charge to agencies for space. They believed this would create savings by making the agencies accountable for the cost of space they occupied and enable GSA to improve service to customer agencies by providing greater flexibility in funding public buildings activities.

GSA estimates that the rents to be collected from all tenant agencies in fiscal year 1980 will total \$1.5 billion for about 277 million square feet of space, including parking. About \$200 million of that amount will be collected from the Department of Defense for about 40 million square feet of space. These collections will be deposited in the Federal Buildings fund and then made available for building operations, including acquisition, construction, alterations and repairs.

PROCEDURES FOR COMPUTING
RENTAL RATES

To determine the approximate commercial rates for individual buildings for fiscal years 1975, 1976, and 1977, General Services used market surveys and quality rating factors to compute composite area rental rates. Rates were separately determined for various classes of space, such as office, storage, and parking. However, user agencies criticized this method because it was based on averages.

In a March 10, 1975, report (LCD-75-325) we noted that this composite average method was deficient because it did not give adequate consideration to the location of a building in determining rental rates on the commercial market. To provide a more equitable and objective method of charging agencies rent for space, we recommended that a building-by-building approach be used, thereby giving more consideration to the locations of the buildings. In 1976, GSA's internal audit group issued a report which confirmed our findings.

GSA adopted new procedures for determining space rental rates starting in fiscal year 1978. This method will provide a new appraisal for use in computing rental rates for one third of the buildings every year. The rental rates are used for 3 years and the rates charged to tenant agencies do not increase during the period regardless of the effect of inflation on building operating costs.

For fiscal year 1978, each building owned or leased by the Government was independently appraised and an annual rental rate comparable to commercial rent was established. For fiscal year 1979, one third of the buildings were reappraised and new rental rates were established for these buildings through 1981. Another one third of the buildings were reappraised for fiscal year 1980 and rental rates established through 1982. For fiscal year 1981 the remaining one third will be appraised and rental rates established for these buildings through 1983.

To support their estimated rates for GSA space, the appraisers record details on 3 parcels of commercial space which, in their professional judgment, are comparable to the Federal space being examined. Because appraisals are made about 18 months before the period to which the rates apply, GSA adjusts the appraised rates to account for estimated inflation from the time of the appraisals to the start of the fiscal year. For example, rental appraisals for fiscal year 1978 were conducted between December 1975 and May 1976.

To update the appraisals, a 9.3 percent inflation factor was added to cover the period from May 1976 to October 1, 1977, the start of the fiscal year.

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.

BASIS FOR DOD'S
RENTAL CHARGES

DOD provided the Subcommittee with a listing of the fiscal year 1979 and 1981 rental rates for 57 office-type buildings occupied by the Department of Defense in the National Capital area. We found that the rental rates for the 57 buildings--14 Government-owned and 43 leased--were computed in accordance with the procedures described above. These were the same procedures used to compute the rentals charged to other agencies during those periods.

For some buildings the charges are less than the amounts General Services pays for rent and operating costs. However, on an overall basis, GSA charges tenant agencies more than it pays to lessors for rent and operating costs. According to a GSA study, receipts from leased buildings exceed expenses (including program direction) by an average of 2 percent a year.

On long-term leases, the charges to agencies generally exceed the rent payments to lessors because the charges are adjusted every 3 years, while the rent payments on most long-term leases entered into before fiscal year 1974 are fixed. Lease payments are no longer fixed on long-term leases entered into after fiscal year 1974 because the leases contain escalation clauses requiring periodic rent adjustments. We reviewed 5 leased buildings in which DOD is a major tenant, and noted three cases, each involving long-term leases, where the rent collected from the Department exceeded the total paid by General Services for rent to the lessor and for services and utilities not included in rent payments. In the other two cases the rental charged to DOD did not cover GSA's costs.

For buildings constructed under the General Services' purchase contract program--a program which permitted General Services to borrow funds needed for construction and to repay the amount borrowed over a 30-year period--the charges collected from tenant agencies do not cover GSA's operating costs and payments for principal, interest, and taxes. We estimate that there will be a negative cash flow (income less than cash outlays) on these buildings for about 20 or more years.

The Department of Defense occupies about 600,000 square feet of space in buildings constructed under the purchase contract program on which income from agency rents will be about 33 percent less than GSA's cash outlays (operating costs, principal, interest and taxes).

Since the law directs General Services to charge agencies comparable commercial rates, General Services does not have a basis to charge agencies a rate based on cost. If rates were based on costs, there would be sizable variations in charges to agencies depending upon whether a building was Government owned or leased or financed through purchase contracting.

INCREASED RENTAL RATES
IN NATIONAL CAPITAL AREA

Because of the increasing demand for office space in the Washington, D.C., area, there have been sizable increases in commercial office rental rates. These commercial rate increases lead to increases in rates paid by agencies since the rates charged to agencies are based on appraisals of comparable commercial buildings.

Not surprisingly then, the Department of Defense has experienced its highest rate increase for office space in the National Capital area. General Services records indicate that DOD's rental rate in General Services Region 3, which includes the National Capital area, has increased by 28.3 percent for a three year period. Nationwide, the increase in rental rates for the Department was 18.7 percent. In one region (New York) the increase was only 2.8 percent.

RESOLVING COMPLAINTS
ABOUT RENTAL CHARGES

Agencies may review the appraisals which are used as a basis for establishing rents for Government owned and leased buildings. This information is in the General Services region in which the buildings are located. General Services, however, has been reluctant to give agencies copies of appraisals.

The Federal Property Management Regulations provide agencies an opportunity to request General Services to review its rental rates without resorting to a formal appeal. An agency may submit a formal appeal only when the rental rates exceed the comparable commercial square foot rates by 25 percent or 50 cents a square foot, whichever is greater, or when the quarterly standard level user charge exceeds the comparable commercial charge for that amount of space by more than \$12,500.

If necessary, an agency may file up to three appeals. The first appeal is filed with the appropriate General Services regional office. A second appeal is filed with the General Services Commissioner of Public Buildings Services. A third appeal, if necessary, is filed with the Administrator of General Services. The Administrator's decisions are final. According to GSA officials the Department of Defense did not formally appeal the rental rates.

HIGHER RATES FOR
SPECIAL PURPOSE SPACE

Both General Services and the tenant agencies fund space alterations in Government owned or leased buildings. When space is upgraded, General Services will charge the tenant agency a higher rental rate. For example, if office space in a building is converted to a computer facility, General Services would increase the rental rate by 25 percent. If office space is upgraded and converted to computer space at General Services' expense, a rate increase seems justified since the commercial value of computer space is higher than for office space. However, when the tenant agency pays for the conversion and then pays a higher rental rate, in effect it is paying twice for the alteration work. If agency-financed alterations result in an increase in the commercial value of the space and a corresponding increase in the rent, we believe the agency should receive a credit for financing the alterations as a reduction against the user charge payments.

As you know we recommended that the Administrator of General Services discontinue the practice of assessing higher rental rates on buildings unless justified by commercial value increases and after providing adjustments for alterations financed by tenant agencies.

Mr. Chairman, this concludes my prepared statement. My associates and I will be happy to respond to any questions you or other members of the subcommittee have at this time.