



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

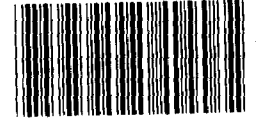
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PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

B-207486

AUGUST 31, 1982

The Honorable William E. Dannemeyer  
House of Representatives



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Dear Mr. Dannemeyer:

Subject: Sale of Metal Forging Facilities  
to the Aluminum Company of America  
and the Wyman-Gordon Company  
(GAO/PLRD-82-116)

In your April 29, 1982, letter, you asked us to review certain aspects of the sale of metal forging facilities owned by the Air Force to the Aluminum Company of America (ALCOA) and the Wyman-Gordon Company. The sales were made by the General Services Administration (GSA). Your specific concerns were that (1) the sales were taking place without competitive bidding and (2) the prices paid for the facilities were far below their true value.

We discussed these sales with Department of Defense (DOD) and GSA representatives in Washington, D.C., and reviewed records within GSA's Federal Property Resources Service, the organization with primary responsibility for the sales. We also reviewed applicable laws, directives, and regulations governing the sales. We discussed the results of our work with your Office on June 14, 1982. The following sections summarize this information.

BACKGROUND

DOD has been following a policy of divesting itself from ownership of industrial facilities, particularly those that are Government owned and contractor operated. DOD's policy conforms with congressional policy contained in Public Law 93-155 (50 U.S.C. 451) enacted in 1973. DOD has expressed this policy in DOD Directive 4275.5. According to a DOD representative, this policy is based on the premise that ownership of the facilities is not essential if the facilities can be available for production to support DOD's requirements. This is compatible with a policy of relying on private ownership, as much as possible, to meet DOD's needs.

Since 1973 more than 50 Government-owned, contractor-operated facilities have been sold. The sale of these facilities was handled by GSA. Before these properties can be reported as excess

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to GSA, the military services are required by title 10, section 2662 of the United States Code to wait "until after the expiration of 30 days from the date upon which a report of the facts concerning the proposed transaction is submitted to the Committees on Armed Services of the Senate and House of Representatives." The report on the Wyman-Gordon facility was submitted as Department of the Air Force disposal report number 211. The report on the ALCOA facility was submitted as Department of the Air Force disposal report number 333.

SALES WITHOUT COMPETITIVE BIDDING

GSA negotiated these sales under the authority of section 203(e) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 484). The applicable part GSA relied on for its authority says that

"(3) Disposals and contracts for disposal may be negotiated  
\* \* \* if"

\* \* \* \* \*

"(G) with respect to real property only, the character or condition of the property or unusual circumstances make it impractical to advertise publicly for competitive bids and the fair market value of the property and other satisfactory terms of disposal can be obtained by negotiation."

The reports prepared by the Air Force and submitted to the Senate and House Committees on Armed Services specify the conditions for disposal. The report on the facilities sold to the Wyman-Gordon Company says

"3. Although there is a continuing requirement for the production capability of this plant, it has been determined that Government ownership is not essential, provided a sale to the current operator can be consummated with the following conditions: (a) that the existing capability for defense production is preserved for 10 years [1/] from the date of transfer of title, and (b) the utilization of the property by the purchaser will not jeopardize the capability of the facility to meet military production during that period."

The report on the facility sold to ALCOA says

"3. Although there is a requirement for the production capability of the described property, it has been determined

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1/Later changed to 5 years by the Air Force.

that Government ownership is not essential provided a satisfactory sale of the facilities to the current operator can be consummated with the following conditions: (a) the existing capability for defense production will be preserved for a period of ten (10) years [1/] from date title to the property is transferred to the contractor and (b) the utilization of the property by the purchaser will not jeopardize the capability of the facilities to meet defense production requirements during that period."

A DOD representative told us that the Air Force wanted to sell the facilities to the current operators so that there would be no disruption in ongoing DOD production contracts. These facilities are being used to produce items for more than 20 military weapons systems, including the F-15 aircraft, the TRIDENT missile, and the BLACKHAWK helicopter.

GSA's explanatory statement, submitted to the Senate Committee on Governmental Affairs and the House Committee on Government Operations, as required by section 203(e)(6) of the Federal Property and Administrative Services Act of 1949, as amended, reiterated these restrictions. The statement on the Wyman-Gordon sale said:

"The proposed sale of the property was initiated by the Department of the Air Force. The Air Force has determined that although there is a requirement for the production capability of the property, Government ownership is not essential, provided certain restrictions are included in the negotiated sale to the contractor. The restrictions imposed on the sale by the Air Force and agreed to by the contractor are:

"1. The existing capability for defense production shall be preserved by the contractor for the Government for five years from the date of conveyance of title to the contractor.

"2. The utilization of the property by the contractor will not jeopardize the capability of the facilities to meet defense production requirements during that period."

An identical explanation was contained in the GSA statement prepared for the ALCOA sale.

#### PRICES PAID FOR THE FACILITIES

As noted above, the Federal Property and Administrative Services Act of 1949 (section 203(e)(3)(g)) authorizes GSA to sell real property by negotiation if " \* \* \* the fair market value

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1/Later changed to 5 years by the Air Force.

of the property and other satisfactory terms of disposal can be obtained \* \* \*." A GSA real property disposal publication defines fair market value as "the price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure, assuming a reasonable time is allowed to find a purchaser, and both seller and buyer are fully informed." Since the Wyman-Gordon and ALCOA sales involved only those purchasers, GSA took steps to develop an estimated fair market value.

GSA did this by using the services of its own staff and an independent contract appraiser. GSA solicited offers from its list of qualified appraisers. From those that responded, GSA awarded a contract on the basis of description of work, experience, and fee.

The appraiser estimated the Wyman-Gordon facility to have a fair market value of \$31 million. In accordance with its usual procedures, GSA used this information and its own market analysis and estimated the fair market value to be \$34,450,000. On June 2, 1982, the property was sold to the Wyman-Gordon Company for \$34,450,000.

The same appraiser evaluated the ALCOA facility. GSA used this information and its own market analysis and estimated the fair market value to be \$13,300,000. On February 26, 1982, the property was sold to ALCOA for \$13,300,000.

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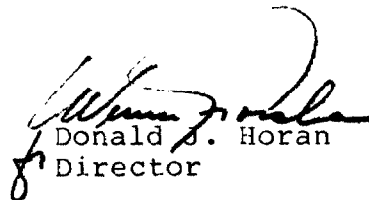
The sales of industrial facilities to ALCOA and Wyman-Gordon appear to have been properly administered by GSA and in accordance with applicable laws and regulations. Since these contractors had ongoing DOD contracts on which the facilities in question were being used and the Air Force determined that the performance of these contracts could not be disrupted by the sale of the facilities to other contractors, GSA was not in a position to make the sales through competitive bidding. Further, considering that GSA obtained an independent appraiser's estimates of the fair market values of the facilities before negotiating the sales prices with ALCOA and Wyman-Gordon, we have no basis to criticize GSA's procedures for establishing the sales prices.

We did not obtain written comments from DOD and GSA, but we did discuss a draft of this letter with DOD and GSA representatives. Their comments have been included, where appropriate. As agreed with your Office, we are providing copies of this report to the Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, and Senate and House Committees on Armed Services; the Director, Office of Management and Budget; the Secretaries of Defense and the Air Force; and the Administrator

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of General Services. We will make copies available to others who have an interest in this matter.

Sincerely yours,



Donald S. Horan  
Director