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Report to Congressional Committees

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FEDERAL OFFICE SPACE

Increased Ownership Would Result in Significant Savings

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The Honorable Daniel P. Moynihan
Chairman, Subcommittee on Water Resources,
Transportation and Infrastructure
Committee on Environment and Public Works
United States Senate

The Honorable John H. Chafee
Ranking Minority Member, Committee on
Environment and Public Works
United States Senate

The Honorable Dennis DeConcini
Chairman, Subcommittee on Treasury,
Postal Service and General Government
Committee on Appropriations
United States Senate

The Honorable Pete V. Domenici
Ranking Minority Member, Subcommittee on
Treasury, Postal Service and General Government
Committee on Appropriations
United States Senate

In an August 5, 1987, joint letter you asked us to assess the effectiveness of the General Services Administration's (GSA) effort to increase the proportion of government-owned office space as part of your request that we review GSA's plans to mitigate the budgetary impact of lease cost growth. This report presents the results of our review of that effort.

We are sending copies of this report to the Administrator of GSA, the Director of the Office of Management and Budget, and other interested parties. Copies of this report will be made available to others upon request.

This report was prepared under the direction of L. Nye Stevens, Director, Government Business Operations Issues, who may be reached on (202) 275-8676 if you or your staff have any questions. Other major contributors are listed in appendix VI.

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Executive Summary

Purpose

Annual costs of office space leased by the General Services Administration (GSA) are projected to rise from $1 billion in 1988 to $1.6 billion by 1994. To reduce lease costs, GSA officials have advocated increasing the proportion of government-owned space.

The Senate Committee on Environment and Public Works and the Senate Committee on Appropriations asked GAO to review the effectiveness of GSA efforts to increase the proportion of government-owned space. This report evaluates (1) whether GSA is meeting federal space needs in the most economical manner and (2) whether economic or other factors have hampered GSA's ability to minimize space costs.

Background

Since 1975, the Federal Buildings Fund (FBF) has generated revenue for acquiring and operating government-occupied space. GSA charges federal agencies rent and uses the revenue to finance its real property programs. It would like to increase the percentage of buildings owned. GSA acquires buildings in three ways: (1) direct federal construction, (2) open-market purchases under the Building Purchase Program, and (3) lease-purchase agreements. (See pp. 10-11.)

Results in Brief

The federal government could save billions of dollars by owning office space it would otherwise lease. Funding limitations and biases in the current budget structure have led GSA to lease space that would be more economical to own. These constraints have also led GSA to use costly alternative financing methods, such as lease-purchase agreements.

Congress and GSA need a better way to identify the most economical means for meeting the office space needs of federal agencies. GSA should prepare annual long-range facility plans that identify the most economical way to meet space needs and the level of capital investment needed. Additionally, GSA should prepare a capital budget for FBF that clearly distinguishes between funding needs for operating and capital expenditures.

Principal Findings

Savings From Increased Ownership

To determine potential cost savings from increased ownership, GAO analyzed 43 projects GSA could construct if sufficient capital funding were available. GAO estimates that construction would save about $12 billion over a 30-year period. The 1989 discounted present value of these savings is $1.3 billion. GAO also examined 72 proposed leases. Using GSA data, GAO estimated that, for about one-quarter of the space, leasing would have a present value cost of $116 million more than government ownership over a 30-year period. For the remaining space, leasing was either less expensive than construction or was preferable for other reasons. (See pp. 13-17.)

GSA Faces Constraints

FBF has generated little revenue for capital investment in the past. Furthermore, sufficient funding is unlikely in the future. Concerns over budget deficits have led Congress and the Office of Management and Budget (OMB) to restrict the rent GSA charges, thus reducing the amount available for capital investment. OMB no longer restricts rent, but congressional restrictions in fiscal year 1988 reduced FBF income by $52 million. However, even without rent restrictions, GSA projections indicate that FBF will fall more than $2 billion short in financing proposed construction between fiscal years 1990 and 1994. (See pp. 18-21.)

Efforts to increase ownership are also hampered by a budgetary bias against capital investment. GSA must record in 1 year's budget the total cost of a newly constructed or purchased building, but is required to record only 1 year's lease payments for a leased building. As a result, leasing appears to be less costly for the current year despite its greater long-term costs. (See pp. 21.)

Alternative Funding Is More Costly

To counteract funding limitations and budgetary bias, Congress has occasionally directed GSA to use alternative financing methods to borrow capital funds. Borrowing, as with leasing, allows only 1 year's cost to be recorded in the annual budget. However, such financing costs more than financing through FBF revenues, direct appropriations, or U.S. Treasury loans. Costs are higher because alternative financing interest rates have been from .82 to 1.89 percent above comparable Treasury borrowing rates. (See pp. 23-27.)

GSA Lacks a Long-Range Facility Plan

GSA has not developed a long-range facility plan to identify the most economical way of meeting overall space needs. GSA officials said that a long-range plan would have limited usefulness because GSA lacks sufficient funds to implement it. However, without such a plan, GSA cannot establish and maintain the level of ownership that would provide space at the lowest cost or the level of funding needed for capital investment. (See pp. 29-30.)

FBF Budget Does Not Highlight Need for Capital Investment

Like other federal agencies, GSA does not prepare a capital budget. Instead, it treats capital investments like operating expenses even though investments, unlike operating expenses, produce future benefits to the government. This budgetary approach skews GSA's decision-making effectiveness by focusing solely on annual outlays and ignoring long-term costs and benefits. (See pp. 30-31.)

GSA can improve its decision-making framework by adopting the OMB Circular A-11 recommendation that agencies separate expenditures into the categories of "operating expenses" and "capital investment." By formulating a capital budget that separated both expenses and revenues into operating and capital components, GSA could provide better information for decision-making and assume a leadership role in demonstrating the benefits of capital budgeting in government. (See pp. 31-38.)

Recommendations

GAO recommends that Congress

- approve and provide funding for cost-effective building construction projects and purchase opportunities proposed by GSA. (See p. 17.)
- require GSA to submit long-range facility plans in support of its annual budget requests. (See p. 38.)
- remove restrictions on rent paid to GSA by tenant agencies and not mandate restrictions in the future. (See p. 22.)
- refrain from authorizing costly alternative financing methods and substitute less costly capital financing methods, such as borrowing through the Treasury's Federal Financing Bank or providing direct appropriations. (See p. 27.)
- direct GSA to provide a model of the benefits of capital budgeting for the federal government. (See p. 38.)

GAO recommends that the GSA Administrator

- seek congressional approval and funding for building construction projects and purchase opportunities that represent cost-effective alternatives to leasing. (See p. 17.)
- establish a long-range facility plan using long-term ownership objectives based on needs assessments and economic analyses. (See p. 39.)
- take the first step toward a capital budget by separating expenditures in its current FBF budget into the categories of "operating expenses" and "capital investment." (See p. 39.)
- take the second step of preparing a capital budget by developing a budget that separates both expenses and revenues into operating and capital components. (See p. 39.)

Agency Comments

GSA and OMB provided comments on a draft of this report. (See apps. I and II, respectively.) OMB agreed with GAO's conclusions and recommendations and cited a joint OMB/GSA study of the Federal Buildings Fund, which had similar conclusions on many of the areas reviewed. Because the report was not available until after the audit was completed, the contents of the study are not addressed in this report.

GSA agreed with most of GAO's conclusions but disagreed that GSA lacks a long-range plan. GSA said it considers long-range trends when it formulates its budget request and that this serves the function of a long-range plan. GAO believes that a formalized long-range facility plan is still required in order to provide the information on total capital investments and potential savings that GSA and Congress need.

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Abbreviations

FBF	Federal Buildings Fund
FFB	Federal Financing Bank
GSA	General Services Administration
OMB	Office of Management and Budget
PBS	Public Buildings Service
TAPS	The Automated Prospectus System

Introduction

As the federal government's landlord, the General Services Administration (GSA) provides office space for most federal agencies. In fiscal year 1988, GSA's office space inventory contained about 233 million square feet of space across the country. About 1,700 GSA-owned buildings provided roughly 60 percent of this inventory. Space obtained through approximately 5,000 leases made up the remaining 40 percent.

Concern about the mounting cost of leasing space to meet agency needs has led GSA to try to reduce leasing costs by increasing federal ownership of office buildings. GSA paid about $1 billion in fiscal year 1988 to lease space. As discussed in a previous report,[1] GSA estimates that the cost of currently leased space will rise to $1.6 billion annually by fiscal year 1994. GSA also estimates that rising demand for additional space will add approximately $400 million annually in leasing costs by 1994.

Federal Buildings Fund

GSA depended on direct congressional appropriations to meet all the costs associated with providing office space, including construction, until 1972 when Congress established the Federal Buildings Fund (FBF). After FBF became operational in 1975, direct appropriations were replaced by income from rent charged for GSA-controlled space. Under this intragovernmental revolving fund, GSA (1) charges federal agencies rent intended to be comparable to local commercial rents, (2) deposits the rental receipts in FBF, and (3) uses the revenue to operate GSA's Public Buildings Service (PBS).[2] FBF is subject to annual enactment of new obligational authority, representing congressionally imposed limitations on the availability and use of FBF revenues.

The House Committee on Public Works and Transportation and the Senate Committee on Environment and Public Works must approve FBF-financed lease and construction projects that exceed specified dollar thresholds. In November 1988, Congress increased the threshold from $500,000 to $1.5 million. GSA submits project descriptions, called prospectuses, to the committees for approval. Prospectuses include information about (1) the size and location of each project, (2) justification for proceeding with projects, and (3) economic analyses of alternative means of acquiring project space. The Office of Management and Budget

[1] Public Buildings Service: GSA's Projection of Lease Costs in the 1990s (GAO/GGD-89-55, Apr. 19, 1989).

[2] PBS's real property management and related activities include acquisition of space by purchase and leasing; maintenance, repair and alteration of facilities; related design and construction services; and overall program management.

(OMB) Circular A-104 establishes the methodology for GSA economic analyses.

GSA has used FBF to acquire buildings for the federal government in three ways: federal construction, purchase of existing commercial office buildings under the Building Purchase Program, and lease-purchase agreements. Lease-purchase agreements are lease-type arrangements with developers in which the federal government owns the building at the end of the lease period.

Budgeting Alternatives

Like the rest of the federal government, GSA prepares a unified budget on a current cash basis. The federal budget treats all outlays the same whether they are for operating expenses or capital investment. However, capital investments differ from operating expenses in that they produce future benefits for the government, a factor not accounted for in the current budget.

Capital budgeting is a budget approach that is used extensively by state governments. A capital budget differs from the federal cash budget in that operating expenses, capital expenses, and revenues are separated into two components. Because a capital budget distinguishes between operating expenses and capital investments, it can help decisionmakers make more informed choices when allocating resources between short-term operating needs and long-term investment needs.

Objectives, Scope, and Methodology

The Senate Committee on Environment and Public Works and the Senate Committee on Appropriations asked us to review the effectiveness of GSA's efforts to improve the ratio of government-owned to leased space. Our objectives were to determine (1) whether GSA is meeting identified federal office space needs in the most economical manner and (2) whether economic or noneconomic factors have hampered GSA's ability to own more space. Our review also answers two specific questions asked by the Committees. First, under what conditions is it more economical or practical for the government to lease space rather than to own it? Second, are GSA's management resources adequate to evaluate and implement alternative financing techniques, including the use of debt and lease-to-own agreements?

To determine whether GSA provides space economically, we analyzed the extent to which GSA adopted the least costly alternative identified by economic analyses. We determined whether increased ownership would save money by reviewing economic analyses for 43 construction projects GSA identified as potential construction projects for fiscal years 1991 through 1995. We obtained GSA cost data and did economic analyses of projects for which GSA analyses were not available. We did not verify the data in GSA analyses or confirm the need for the proposed 43 construction projects. To determine whether leasing was the least expensive method of providing space, we reviewed economic analyses for 72 leases, each costing $500,000 or more, that GSA proposed in calendar year 1988. For cases in which leasing was more expensive than construction, we contacted regional officials to determine why GSA chose leasing.

To identify economic and noneconomic factors hampering GSA's efforts to increase ownership of space, we analyzed GSA's ability to finance ownership and the adequacy of GSA's planning and budgeting systems to provide information needed for decision-making. We reviewed budget documents to determine whether FBF has generated sufficient funding in the past to meet ownership needs and its ability to do so in the future. We identified the costs and benefits of alternative financing techniques available to GSA. We discussed with GSA officials and knowledgeable individuals in the public and private sectors the expertise needed to assess and implement alternative financing procedures. We reviewed GSA's facility plans and procedures and discussed them with regional and headquarters officials. We determined whether GSA's budget was adequate to plan for the financing of future space needs.

We interviewed officials, obtained cost data, and reviewed documents at GSA's Washington, D.C., headquarters and at regional offices in Chicago, Fort Worth, Washington, D.C., and San Francisco. We did our work between July 1988 and May 1989 and in accordance with generally accepted government auditing standards. OMB and GSA provided written comments on a draft of this report (apps. I and II, respectively). Their comments, and our evaluation, are discussed at the end of chapters 2, 3, 4, and 5.

Increased Ownership Would Result in Cost Savings

GSA can realize significant savings by increasing the percentage of federally owned space. We estimate that constructing 43 projects GSA tentatively identified for fiscal years 1991 through 1995 would save about $12 billion over a 30-year period compared with leasing the same amount of space. The 1989 present value of these savings is about $1.3 billion. However, limited construction funding forces GSA officials to lease space that would be less expensive to own. We examined the basis for GSA decisions to enter into 72 leases that the agency submitted to Congress for approval during 1988. We found that federal construction of about one-quarter of the space would save in present value approximately $116 million in 1988 dollars. However, construction is not always preferable to leasing. For three-quarters of the space, leasing was either less expensive than construction or preferable for practical reasons, such as to meet temporary space needs while repairs are being made on permanent buildings.

Increased Ownership Would Save Money

GSA views owning office space as the most economical means of meeting long-term federal office space needs. In 1988, GSA identified 43 construction projects it would like to undertake during fiscal years 1991 through 1995 to replace space it would otherwise lease. According to GSA officials, the 43 projects do not represent all cost-effective construction projects—they represent capital projects GSA officials believe the agency would be able to undertake between fiscal years 1991 and 1995 if it were given an increased level of capital funding.

To determine the long-term potential cost savings associated with construction, we examined projected costs for the 43 projects. Economic analyses GSA prepared for 24 of the 43 projects compared the cost of ownership with the cost of leasing over a 30-year period. For the 19 projects lacking economic analyses, we obtained GSA cost data and did the analyses using the same computer program GSA uses for its economic studies. A GSA official said that GSA did not do economic analyses for these 19 projects because they are not actively under consideration for the current year.

We estimate that the cost of constructing the 43 projects would be roughly $12 billion lower than the cost of leasing the same space over a 30-year period. As shown in table 2.1, estimated cost savings amounted to $1.26 billion, measured in present value 1989 dollars, over a 30-year period. Because of the tentative nature of the data, our estimates represent only approximate cost savings associated with construction. Appendix III provides a detailed description of the methodology we used in estimating the potential cost savings associated with increased ownership.

Table 2.1: Present Value Savings From Proposed Federal Construction Projects

Dollars in billions

Cost benefit studies	Number	Cost savings
GSA analysis	24	$0.52
GAO analysis	19	0.74
Total	**43**	**1.26**

Some Leased Space Should Be Owned

GSA officials weigh both economic and practical considerations when deciding how best to fulfill agency requests for space. However, GSA must sometimes lease space even when ownership is cheaper; while leasing costs accrue on an annual basis, construction costs must be funded up front.

To determine the extent to which GSA leases space that would be more economical to construct and own, we reviewed the 72 lease projects, each costing over $500,000 annually, that GSA proposed to Congress during 1988. Our analysis of the cost data indicated that, for 16 of the leases, ownership would save approximately $116 million in present value 1988 dollars. As shown in table 2.2, we found that leasing space was preferable to construction for the remaining 56 leases because it was either more practical or more economical.

Table 2.2: Lease Proposals GSA Submitted to Congress in 1988

	Number of leases
Construction more economical	16
Leasing more practical	23
Leasing more economical	15
Leasing only alternative	18
Total	**72**

Even though construction may be less costly over a 30-year period than leasing, GSA is often forced to choose leasing because construction funds are not available. For example, the 30-year present value cost of a lease GSA recommended in Portland, Oregon, was $6 million more expensive than construction. However, the proposal's written justification indicated that GSA could not pursue construction because GSA lacked sufficient funds.

For 23 leases, factors specific to the project, such as location requirements or duration of need, made leasing preferable even though it was more expensive than construction. Table 2.3 illustrates three instances from the leases we reviewed in which practical considerations suggest using leasing even though construction may have been less expensive.

Table 2.3: Leases in Which Practical Considerations Outweigh Higher Costs

Reason	Example
Short-term government needs	GSA proposed leasing 576,516 square feet of space to accommodate Department of Defense activities presently located in seven buildings in Northern Virginia. Under the master plan, the government would acquire an additional 1.8 million square feet of government-owned space. Leased space will be given up on a phased basis as the master plan is completed.
Areas of low federal activity	GSA proposed leasing 37,240 square feet of space for the Navy's Naval Sea Systems Command Detachment in Portsmouth, New Hampshire. Leasing had a present value cost of approximately $1.6 million more than construction over a 30-year period. GSA preferred to lease this space because of the low level of federal activity in the area.
Flexibility to meet changing needs	GSA proposed leasing approximately 60,000 square feet of space for the U.S. Customs Service in Port Newark, New Jersey, where GSA already owns a building. The present value cost of leasing was $3.4 million more than the cost of construction. According to an agency official, GSA preferred leasing because constructing a small building for a single tenant in this area would reduce GSA's ability to respond to changing agency needs.

For 15 of the 72 leases, leasing was more economical than construction. GSA can obtain favorable lease rates in some areas of the country because of depressed rental markets. In such cases, leasing may be less expensive over a 30-year period than construction. For example, the present value cost of constructing a new federal building to consolidate several agencies located in the Pershing Point Plaza in Atlanta, Georgia, was $26 million, while the cost for leasing the same amount of space was $24 million.

In 18 leases, GSA officials felt that they had no alternative to leasing, so they did not do economic analyses. In most of the cases, the housing need was temporary; tenant agencies needed temporary housing until renovation projects or government-owned facilities were completed. For example, GSA proposed to lease approximately 83,000 square feet of space in Washington, D.C., to provide space during the renovation of the GSA Headquarters Building. In this instance, construction was not a realistic alternative because the need for space was temporary.

Purchasing Allows Greater Savings

As discussed in our recent report,[1] purchasing a building is often cheaper than either constructing or leasing a building of equivalent space. In such instances, the government can realize even greater savings by acquiring purchased space than our cost analysis of proposed construction projects indicates.

GSA's concern about rising lease costs led it in 1984 to create a program to purchase existing office buildings. Since the program's inception in 1983, GSA has purchased 13 office buildings nationwide that have added 3.5 million square feet of government-owned space to GSA's inventory at a cost of approximately $305 million. Our review of the program found that purchasing space can be a more economical way of acquiring quality, modern office buildings in cities with a long-term federal presence than leasing or constructing equivalent space. GSA says that purchasing can be cheaper than construction for the following reasons:

- A purchased building is available for occupancy much sooner than a constructed building, which takes 4 to 6 years to build. Thus, interim housing costs for federal employees are less for purchased buildings.
- Privately constructed commercial office buildings are not subject to the same design standards and laws regulating federal construction. These standards and laws tend to make federal construction of the same space more expensive than private construction.
- GSA avoids construction cost overruns by purchasing existing buildings at a fixed price.

In addition, in depressed rental markets existing buildings may cost relatively less than new construction.

Conclusions

The federal government could realize significant cost savings if GSA owned more of the space it currently leases. We estimate that 43 proposed construction projects, if approved, would result in a 30-year savings of $12 billion compared with continued leasing of equivalent space. In addition, we found that 16 large leasing projects submitted for congressional approval in 1988 will, if equivalent space continues to be leased for the next 30 years, cost the government $116 million more in present value 1988 dollars than they would if GSA were to construct equivalent space. However, GSA was forced to choose leasing in those 16 projects because of the unavailability of construction funds.

[1] Building Purchases: GSA's Program is Successful, but Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct. 31, 1989).

Conditions sometimes make it more economical or practical for the government to lease space than to own it. Because of depressed rental markets in some localities, GSA can lease more economically than it can construct equivalent space. This report did not investigate the possibility of purchase of existing buildings in these markets. Other GAO work, however, suggests that such an approach can lead to cost savings. In other situations, leasing may be preferable because the government's need for space is either a temporary or small need, or GSA wants to be flexible so that it can meet changing conditions.

Recommendations

We recommend that, where practical, the GSA Administrator seek approval and funding for constructing or purchasing buildings that represent cost-effective alternatives to continued leasing of equivalent office space.

We further recommend that when Congress decides to approve building acquisition projects, it use the most cost-effective methods of financing.

Agency Comments

OMB concurred with our recommendations, saying that where there is a long-term need, ownership is more cost effective than leasing except where there is a depressed real estate market. GSA agreed that it can realize significant savings by increasing the percentage of federally owned space.

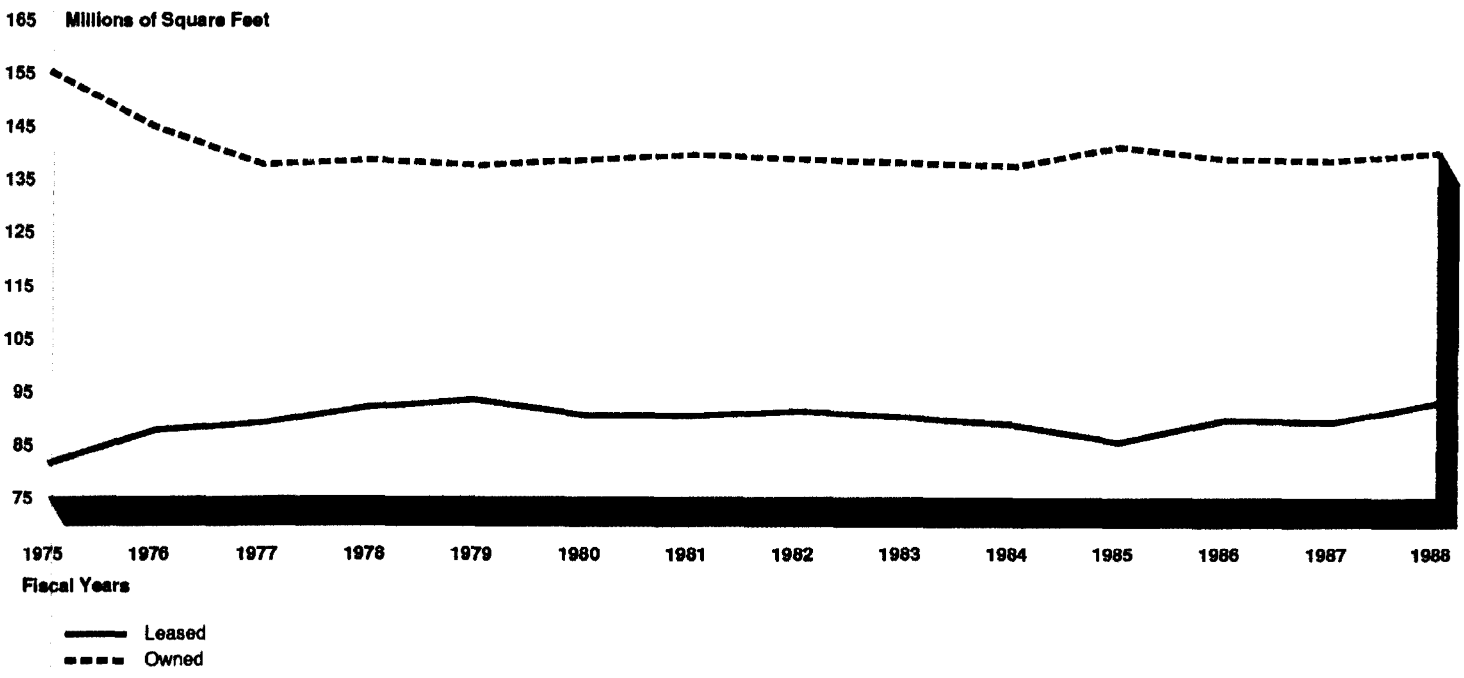
Funding and Budgeting Constraints Limit GSA's Ability to Increase Ownership

Since FBF became operational in 1975, government-owned space declined from about 66 to 60 percent of GSA's inventory; leased space increased from 34 to 40 percent. Historically, FBF has not generated sufficient funds to increase the percentage of owned space, primarily because FBF income has been artificially reduced by congressional and OMB restrictions on the amount of rent GSA could charge federal agencies. Although most rent restrictions have been lifted, GSA's fiscal year 1990 budget estimates indicate FBF will continue to fall short of cost-effective capital investment needs. In addition, the inherent bias in the budget structure against capital investment increases the difficulty of allocating funds to ownership.

GSA Ownership of Space Has Declined

GSA's total space inventory was about the same in 1988—233 million square feet—as it was in 1975, at 236 million square feet. As shown in figure 3.1, however, the amount of owned space has declined while the amount of leased space has increased since FBF became operational.

Figure 3.1: Amount of Owned and Leased Space in GSA's Inventory Since 1975



Between 1975 and 1989, GSA increased its owned-space inventory by constructing 63 buildings and by purchasing 36 buildings from the U.S. Post Office. GSA's purchase of 13 existing commercial buildings added another 3.5 million square feet of owned space during this period. However, according to a GSA official, additions to the owned inventory have been offset by GSA's removal of dilapidated or unneeded buildings from its inventory.

GSA records confirm that the total amount of owned space has dropped from 155 million square feet in 1975 to 140 million square feet in 1988, a reduction of 15 million square feet. Current projections indicate that the amount of owned space is likely to decrease by an additional 600,000 square feet by 1990. Leased space increased during this period by about 12 million square feet, or from 81 million square feet in 1975 to 93 million square feet in 1988. GSA expects that the amount of leased space will continue to increase because anticipated agency expansion cannot be met in government-owned space. Current projections show leased space rising to 99 million square feet in 1990.

Funding Constraints Have Limited Ownership

Historically, FBF has not generated sufficient revenue to support a capital investment program that would allow GSA to increase the level of ownership relative to leasing. In constant 1988 dollars, FBF has provided an average of only $97 million per year for construction and acquisition since it began operating in 1975. The inadequacy of this funding level becomes apparent when it is compared with the estimated $3 billion in capital funding required to construct 43 buildings GSA tentatively identified for fiscal years 1991 through 1995.

A major reason for FBF's past inability to generate capital investment funds is the restrictions Congress and OMB have imposed on the amount of rent GSA could charge federal agencies, which, GSA states, has occurred in 8 of the 15 years FBF has operated. As noted in a prior report,[1] Congress and OMB reduced rental rates from 1975 to 1977, because some Members of Congress and OMB officials believed the rates were too high. GSA estimates that these actions reduced FBF income by $2.2 billion in 1988 dollars. For the 5-year period between 1978 and 1982, Congress and OMB did not mandate rent reductions. Congressional staff indicated that concern over budget deficits led Congress and OMB to reinstate rent restrictions between 1983 and 1987. Limiting each agency's rent payments reduced the size of each agency's budget and,

[1] GSA's Federal Buildings Fund Fails to Meet Primary Objectives (PLRD-82-18, Dec. 11, 1981).

therefore, the size of the total federal budget. At the same time, these rent restrictions reduced FBF income and thus limited revenues available for capital investment. GSA estimates that the rent restrictions reduced FBF income by $1.3 billion in 1988 dollars between 1983 and 1987.

Funding Constraints May Continue to Limit Ownership

GSA estimates that FBF income increased by more than $200 million in fiscal year 1988 because Congress and OMB did not mandate across-the-board rent restrictions. However, Congress continues to restrict the amount of rent that some agencies pay GSA. In fiscal year 1988, Congress restricted the rents paid by the Departments of Agriculture and Transportation. GSA estimates that these restrictions reduced FBF income by $52 million.

Gramm-Rudman-Hollings deficit reduction targets may create additional pressure either to reimpose rent restrictions or to extend them to more agencies, thus sharply curtailing FBF revenues for GSA's capital investment program. Even if Congress does not extend rent restrictions, GSA's fiscal year 1990 budget projections indicate FBF will not generate sufficient revenue for needed construction and acquisition. In GSA's projections, funds devoted to construction and acquisition represent simply the amount remaining after operating expenses are met, not the level of funds GSA has identified for cost-effective construction for this 5-year period. The amounts shown in table 3.1 for GSA's projected income and expenses assume no further rent restrictions will be applied.

Table 3.1: FBF Projected Income and Expenses

Dollars in thousands

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	Total
Income	$3,476,550	$3,476,843	$3,853,654	$3,960,854	$4,030,807	**$18,798,708**
Expenses						
Construction and acquisition	244,539	6,654	173,488	120,199	11,000	**555,880**
Repairs and alterations	438,193	550,231	624,751	618,487	596,392	**2,828,054**
Design and construction services	157,081	123,943	134,381	132,157	132,706	**680,268**
Purchase Contract payments	129,752	128,161	127,180	125,778	124,122	**634,993**
Rental of space	1,351,500	1,587,046	1,683,856	1,833,719	2,017,091	**8,473,212**
Real property operations	968,298	986,665	1,006,911	1,023,799	1,041,538	**5,027,211**
Program direction	70,520	69,297	56,615	58,331	59,244	**314,007**
Balance	$116,667	$24,846	$46,472	$48,384	$48,714	**$285,083**

As shown in table 3.1, GSA projects that FBF will generate a total of $556 million for construction and acquisition between 1990 and 1994, or an average of $111 million a year. Although this amount represents an increase in capital investment over past levels, funding will be inadequate to finance the $3 billion in new construction needs that economic analyses indicate are cost-effective; new construction needs include firm projects scheduled for 1990 and more tentative projects to be constructed in later years. If these estimates are accurate, FBF will fall more than $2 billion short in funding new construction.

Budget Bias Against Capital Investment

Another factor that has hampered GSA's ability to increase government ownership of office space is the inherent bias against capital investment built into the current budgeting process. This bias occurs because the federal budget makes no distinction between an outlay for a capital asset that produces a future stream of benefits and an outlay for current operations. For example, the budget does not show a distinction between an $85 million outlay to construct a building and a $3 million outlay to rent equivalent space for 1 year, even though the two types of outlays are fundamentally different. The difference is that a one-time investment in an owned building will provide future benefits by housing federal employees, while rental payments will have to be made year after year.

The failure of the current budget process to recognize this distinction places capital investment projects at a disadvantage during budget deliberations; these projects must compete with other means for acquiring space, such as leasing or lease-purchase, which have much lower initial costs but significantly higher long-term costs. The budgetary bias against capital investment often results in GSA and Congress selecting a lease or lease-purchase option that is treated as a recurring annual operating expense, even though this option is more costly over the long-term than direct federal construction or purchase. The presence of this bias means, in effect, that capital assets are required to have a 1-year payback to be able to compete equally with current operating expenses. Chapter 4 discusses in more detail why GSA and Congress have turned to costly alternative financing techniques to counteract funding constraints and the budget bias.

Conclusions

The cumulative effect of funding constraints is the principal reason why FBF has accumulated little money for capital investment in the past. Congressional and OMB restrictions on the rent GSA can charge tenant agencies has exacerbated the shortfall. Although OMB no longer restricts rent, Congress has continued to restrict rent for some agencies. Even without across-the-board restrictions, FBF will likely fall more than $2 billion short in financing proposed cost-effective construction between 1990 and 1994. The deficit for construction may be even greater if concern over budget deficits leads to restricted rents for more agencies in the future.

Another factor hampering GSA's capital investment is the federal budget system's bias against capital investment. GSA must record the total cost of a newly constructed or purchased building in 1 year's budget, but it records only 1 year's lease payments for a leased building. As a result of the unequal budget treatment of these options, leasing is invariably the less costly option for the current year. Chapter 5 discusses this issue along with changes needed to improve decision-making on capital investments.

Recommendations

We recommend that Congress (1) remove restrictions on rent paid to GSA by tenant agencies and (2) not mandate future restrictions.

Agency Comments

GSA and OMB concurred with our recommendations. OMB said that it and GSA will be working with Congress to propose legislation that will achieve the aim of the recommendation.

GSA Has Turned to Costly Alternative Financing Techniques

Reflecting FBF's limited resources and the budgetary bias against capital investment, Congress in recent years has directed GSA to use more costly alternative financing methods for purchase contracts and lease-purchase agreements to finance federal ownership. By using these alternative financing techniques, GSA is able to record just 1 year's mortgage costs or lease payments in a given budget year instead of each building's entire cost, thereby minimizing the budgetary impact of acquiring buildings. However, use of these techniques will result in GSA paying about $247 million more in interest from 1972 through 2019 than it would if GSA either borrowed acquisition funds directly from the U.S. Treasury or obtained appropriations. The present value of the additional cost is about $195 million in 1988 dollars. GSA will also pay an estimated $672 million extra in real estate taxes and $3 million in trustee fees because it acquired buildings through purchase contracts. The present value of these additional costs is about $1 billion in 1988 dollars. Finally, GSA also incurs other expenses for private-sector expertise and financing as a result of its use of alternative financing techniques.

Alternative Financing Techniques Used

Since 1972, GSA has used two types of alternative financing techniques to acquire office buildings: (1) purchase contract authority and (2) lease-purchase agreements. Purchase contract authority originated with the passage of the Public Buildings Amendments of 1972, which authorized GSA to enter into purchase contracts to construct a backlog of approved but unfunded projects. The expiration of GSA's purchase contract authority in 1975 coincided with FBF's first year of operation.

GSA used purchase contract authority to obtain $1.4 billion to construct 68 buildings containing about 15 million square feet of occupiable space. GSA obtained $697 million of this amount through the sale of mortgage-backed securities to investors and borrowed about $534 million through the Federal Financing Bank (FFB). The remaining $138 million was financed through mortgage loans from developers constructing some of the smaller buildings.

The second alternative financing technique involves GSA entering into long-term lease-purchase agreements in which the federal government owns the building at the end of the lease period. These agreements are authorized by Congress for individual projects. The first lease-purchase agreement was signed in February 1989 for the construction of a federal office building in Chicago, Illinois. A second agreement was signed in March 1989 for a building in Oakland, California. However, according to GSA officials, this agreement was cancelled in August 1989 because the developer was unable to secure financing acceptable to GSA within the time frames specified in the contract. The status of this lease-purchase project was uncertain as of the end of September 1989. GSA is currently negotiating lease-purchase agreements for federal buildings in New York City and Washington, D.C. The Washington project will house the International Cultural and Trade Center and is being managed primarily by the Pennsylvania Avenue Development Corporation.

In addition to the four projects underway or in negotiation, Congress has authorized other lease-purchase agreements. As of May 31, 1989, legislation has been enacted authorizing the lease-purchase of buildings for the Department of Transportation and the Environmental Protection Agency in Washington D.C.; an Internal Revenue Service Center in Memphis, Tennessee; buildings for the Centers for Disease Control in Chamblee, Georgia; and an additional federal building in San Francisco, California (see app. IV).[1]

Alternative Financing Counteracts Funding Constraints and Budget Bias

Congress and GSA have used alternative financing to minimize the short-term budgetary impact of building acquisition. In the early 1970s, GSA used debt in the form of mortgage-backed securities to acquire buildings whose full costs did not have to be shown in the budget. Instead, GSA records only the amount of a single year's principal and interest payments in each year's budget. For example, at the end of fiscal year 1987, GSA still had over $1 billion in purchase contract debt outstanding, but it recorded only $134 million in the fiscal year 1987 budget to cover that year's debt repayments.

In a similar way, GSA has used lease-purchase agreements to minimize the short-term budgetary impact of building acquisition. To permit GSA to include only a single year's lease payments in the budget, Congress has waived the requirements of the Anti-Deficiency Act for approved lease-purchase projects.[2] Appendix IV lists the legislation passed to authorize lease-purchase projects and grant Anti-Deficiency Act waivers for them.

[1]Public Laws 100-202 and 100-440.

[2]The Anti-Deficiency Act (31 U.S.C. subsection 1341) prohibits federal officials from making or authorizing expenditures or obligations in excess of amounts available in appropriations.

Alternative Financing Costs More Than Other Options

GSA's use of mortgage-backed securities and lease-purchase agreements is more costly than other possible options, such as constructing or purchasing buildings using FBF revenues, appropriations, or Treasury money. Added costs result from GSA having to pay interest rates significantly above Treasury rates when it borrows money from investors using mortgage-backed securities or when GSA enters into lease-purchase agreements. In addition, GSA incurs costs from these alternative financing techniques that GSA would not incur if it financed acquisitions using FBF revenues, appropriations, or Treasury money. GSA incurs extra costs from the need to place the debt with private investors and from ongoing costs associated with debt service and the payment of real estate taxes.

Mortgage-Backed Securities Costs

GSA's use of mortgage-backed securities in the early 1970s was costly because of the interest rates on long-term financing and the additional costs associated with property taxes and debt placement and servicing. GSA paid interest rates on the securities ranging from 1.28 to 1.89 percent over the long-term Treasury bond rate.[3] As a result of borrowing at these interest rates, the government will incur about $214.3 million more in interest costs over the life of the securities than if GSA had borrowed from the Treasury. In present value terms, the extra costs will amount to $287.7 million in 1988 dollars (see app. V).

In addition to the higher financing costs, GSA required assistance from private sector firms to issue the $697 million in securities under the purchase contract authority. As we said in an earlier report,[4] GSA required the services of a financial advisor, special counsel, trustee, and underwriter. The cost of this assistance was $7.2 million, or just over 1 percent of the value of the securities.

GSA officials said that GSA also incurs ongoing costs for buildings financed with mortgage-backed securities that GSA would not incur if it directly purchased or constructed these buildings. These costs include

[3]The Treasury did not begin issuing 30-year bonds until 1978. Therefore, we compared the rates for the 30-year mortgage-backed securities with rates given for 20-year Treasury bonds, the longest term reported in the Federal Reserve Bulletin from 1972 through 1976.

[4]General Services Administration's Debt Management Problems With Its Participation Certificates (LCD-79-320, July 11, 1979).

an annual trustee fee and real estate taxes that the government otherwise does not have to pay for government-owned buildings.[5] GSA estimates that the cost of trustee fees will be $3 million and that real estate taxes will be $672 million over the same period. In present value terms, the costs will be about $3.8 million and $1.2 billion in 1988 dollars, respectively.

Lease-Purchase Agreement Costs

GSA's lease payments for the Chicago project will reflect long-term financing interest rates that will be .82 percent above the 30-year Treasury bond rate at the time the building is completed and accepted by GSA. GSA payments will exceed the payments on Treasury bonds of comparable maturity by about $33 million. In present value terms, GSA would have saved about $11 million in 1988 dollars if the project had been financed through the Treasury. (See app. V).

Although GSA does not expect to pay real estate taxes on lease-purchase projects, the Chicago lease-purchase agreement includes the cost of private sector expertise. The chief financial officer of the Chicago contractor estimated the cost of private sector expertise at 1 percent of the total project cost, or about $1.5 million.

Use of Private Sector Expertise

GSA, much like state and local governments, has found that it needs specialized expertise from private sector credit and real estate markets to evaluate and implement alternative financing techniques. Use of such expertise is common among state and local governments entering into similar alternative financing agreements. Public and private sector officials we contacted said that the use of special counsel, trustees, underwriters, and private developers is essential to state and local governments' abilities to issue mortgage-backed securities and to enter into lease-purchase agreements. In addition, GSA officials said that using private sector expertise is more efficient and less costly than having GSA personnel handle all the details of the long-term financing in-house.

[5] In recognition of the potential adverse effects of federal ownership on local tax bases, OMB guidance on the A-104 analysis and prospectus decisions does not allow the use of reduced state and local taxes as a factor favoring ownership.

Treasury Borrowing or Appropriations Would Cost Less Than Alternative Financing

Either borrowing from the U.S. Treasury or obtaining congressional appropriations would be a less costly long-term financing method than borrowing from private sector investors or developers. Interest rates on alternative financing techniques have ranged from .82 to 1.89 percent above comparable Treasury rates. By financing building acquisition with appropriations or Treasury borrowing, Congress would provide long-term financing at, or close to, the long-term Treasury rate.

We believe that borrowing from the Federal Financing Bank would be the preferred method for obtaining funding from the Treasury.[6] Authorizing GSA to obtain long-term funding from FFB would be in keeping with FFB's purposes, which are to coordinate federal and federally assisted loans and to ensure that such loans do not disrupt private financial markets. Furthermore, GSA officials stated in fiscal year 1989 budget hearings that, except for outright purchase using appropriated funds, borrowing from FFB was their preferred option for financing the Chicago project.

Conclusions

Congress has directed GSA to use costly alternative financing techniques to counteract FBF's limited capital investment resources and to overcome the budgetary bias against capital investment. The federal government would save significant amounts of money in acquiring buildings if FBF was supplemented with appropriations or if GSA was authorized to borrow funds from the Treasury or the Treasury's FFB.

Recommendations

We recommend that Congress stop directing GSA to use alternative financing techniques, such as lease-purchase agreements, and instead (1) substitute less costly capital financing techniques, such as borrowing through the Treasury's FFB, or (2) provide direct appropriations to FBF.

Agency Comments

In commenting on a draft of this report, OMB agreed with us that financing construction and purchases through direct appropriations would be the least-cost financing mechanism and that financing through Treasury's Federal Financing Bank would be the next best mechanism. OMB maintains, however, that neither financing mechanism is feasible given

[6] FFB, a unit of the Treasury Department, typically charges borrowers an interest rate of .125 percent above Treasury's interest rate for debts of comparable maturity. For purposes of analysis, however, the .125-percent margin above the Treasury rate is considered to be an intragovernmental transfer of funds rather than an additional cost to the federal government for borrowing from FFB.

current budget constraints, and therefore lease-purchase arrangements will continue to be used.

OMB plans to work with GSA to propose legislation to authorize GSA to enter into financing arrangements that would be less costly than those currently being used. These arrangements would be no more than 75 basis points above Treasury interest rates for debts of comparable maturity and subject to review and approval by OMB on a case-by-base basis, as well as other restrictions.

OMB's proposal to limit the cost of lease-purchase arrangements would represent a significant improvement over current conditions. We continue to believe, however, that the least costly financing arrangements would be direct appropriations or borrowing through Treasury and that these are viable options for Congress to consider.

Long-Range Planning and Capital Budgeting Can Improve Management and Decision-Making

Congress and GSA need a better framework for identifying the most economical ways of meeting federal agencies' office space needs. GSA should provide such a framework by preparing annual long-range facility plans that identify

- the most economical way to meet known federal office space needs and
- the most cost-beneficial methods for financing federal ownership of office space.

As another part of the framework, GSA should prepare a capital budget for FBF that clearly distinguishes between funding needs for operating and capital expenditures. GSA's adoption of a capital budget would highlight capital investment policy and focus attention on government ownership of assets that produce long-term benefits.

GSA Lacks Long-Range Facility Plans

GSA has not determined the optimum level of federal ownership for meeting long-term federal office space needs economically. Without long-range facility plans that balance the costs and benefits of ownership with the flexibility of leasing, GSA cannot demonstrate to Congress the cost savings associated with increased ownership.

Although GSA's strategic plans set a target, in 1988, of owning 70 percent of the total space inventory, GSA has not supported this ownership target with agencywide economic analyses or adopted it as an official agency goal. GSA does not prepare and periodically update a long-range plan that determines, through economic analyses, the appropriate level of ownership on a project-specific basis. In addition, although this ownership target sets a benchmark for capital investment, the target lacks credibility because it was established arbitrarily. Over the last decade, the target has fluctuated between 60 and 80 percent, depending on the policies of the several GSA administrators during that period. Because the target is not supported by economic analyses of specific projects, it does not necessarily represent the proportion of space that should be owned to provide space at the lowest cost.

GSA headquarters develops an annual list of capital projects each year but does not develop national long-range facility plans that identify total space needs and the most economical way of meeting them. The regional offices develop broad community surveys and submit these surveys throughout the year to GSA headquarters. The surveys identify long-range facility needs at the community level and evaluate alternative strategies to meet these needs in the most cost-effective manner.

Detailed proposals for specific current-year capital projects are also submitted to GSA headquarters each year. GSA headquarters ranks, evaluates, and develops an annual list of the current year's capital projects for its annual budget. According to GSA officials, headquarters does not consolidate the community surveys into a national long-range facility plan. Instead, it submits only the current-year capital project proposals to Congress for review and approval as part of the budget process.

We believe GSA's recent listing of 43 proposed federal construction projects for 1991 through 1995 is a step in the right direction, since it identifies national long-range facility needs on a project-specific basis. However, the list has limited use as a planning tool because GSA did not (1) submit it along with the annual budget, (2) periodically update it, (3) do economic analyses and comparisons for all projects, and (4) identify all cost-effective construction projects.

GSA officials said that limited resources precluded a detailed study of every community and suggested identifying the optimal level of ownership in each of the 30 major planning communities with periodic assessments of smaller communities. They also said that long-range facility plans would have limited usefulness because GSA lacks sufficient funds to implement them. However, without such plans, GSA cannot establish with any certainty the level of ownership that would provide space at the lowest cost. Furthermore, without long-range plans, Congress and OMB cannot determine (1) the level of funding needed for capital investment, (2) the savings that would result from such investments, and (3) the federal government's progress in meeting capital investment needs.

Problems With Current Budget Structure

Like the federal government as a whole, GSA does not currently prepare a capital budget that distinguishes between outlays for current operations and outlays for capital investments. Instead, the GSA budget, like the overall governmentwide budget, shows cash receipt and combined outlay totals. The lack of a budgetary distinction between outlays for current operations and outlays for capital investments leads to unsound policies. For example, at the federal level, the current budget structure makes it difficult for the President and Congress to apply deficit reduction strategies in a way that balances the needs for operating expenses with needs for capital investments or to recognize the different short- and long-term economic effects of the two types of spending. Similarly, at the agency level, the lack of a distinction in the budget between outlays for operating expenses and outlays for capital investments leaves proposed capital investments at a disadvantage during budget deliberations about alternative means of acquiring space. In GSA's case, the lack of a distinction leads decisionmakers to select leasing or other alternative financing techniques that have lower initial costs even though they entail greater long-term costs.

Capital Budgeting Benefits

In a previous report, we described how the current unified federal budget would be more useful if its structure were modified to include a capital budget.[1] At the governmentwide level, we pointed out that a capital budget would (1) provide the President and Congress with a sounder basis for targeting areas for deficit reduction, (2) correct the budget bias against physical capital investments, and (3) help focus public attention on the nation's physical infrastructure needs.

GSA's adoption of a capital budget would provide Congress with a clearer picture of the federal government's investment in assets that produce long-term benefits. Capital budgets prepared by agencies throughout the federal government would also correct the bias against physical capital investments now evident in the federal unified budget. Agencies would correct the bias by distributing capital investment outlays in their budgets over the useful life of the investment. In this way, each year's cost of using the capital asset in the operating budget would be reported as capital consumption or depreciation.

A capital budget would also help focus attention on the government's future physical infrastructure needs. GSA and other federal agencies have invested billions of dollars in physical capital assets, such as buildings. Many of these buildings are deteriorating. A capital budgeting approach would help agencies deal with this deterioration by allowing agencies to depreciate capital investments and plan for building replacement.

GSA's Leadership Role in Preparing a Capital Budget

A capital budget would serve as an integral part of a decision support framework highlighting GSA capital investment policy decisions. This framework would also include GSA annual long-range facility plans and would focus attention on government ownership of assets that produce long-term benefits.

[1] Budget Issues: Restructuring the Federal Budget—the Capital Component (GAO/AFMD-89-52, Aug. 24, 1989).

Because of its unique role as the government's landlord and physical asset manager, GSA is well suited to demonstrate the benefits of capital budgeting. By providing a capital budget for FBF that clearly distinguishes between outlays for current operations and outlays for capital investments, GSA could help overcome the bias against capital investments and aid decisionmakers in making sound fiscal choices.

For example, as discussed in chapter 4, Congress has counteracted the budgetary bias by waiving the Anti-Deficiency Act for buildings financed using lease-purchase agreements. The waiver permits GSA to spread the cost of borrowing over a long time period in a manner similar to leasing. Borrowing from FFB, which is a less expensive financing method, cannot be annualized in the same way because of the requirements of the Gramm-Rudman-Hollings Act. Gramm-Rudman requires that an agency record the full amount of any funds borrowed from the FFB as an obligation in the year the agency commits to borrow funds. In a capital budget, however, lease-purchase and FFB loans would be annualized in the same way through the asset consumption charge. By spreading the costs over the life of the asset, the asset consumption charge will help overcome the budget bias to aid decisionmakers in choosing a financing method that provides space at the lowest cost.

GSA officials recognize the value of capital budgeting. GSA was among the federal agencies that responded positively to an exposure draft of our capital budgeting report. In September 1988, GSA's Acting Administrator endorsed the concept of capital budgeting, saying that it would promote sound fiscal policy and ". . . assist policymakers and the public in understanding the critical budget choices we face."

Steps Needed to Prepare a Capital Budget

To prepare a capital budget, GSA would need to separate FBF expenditures and revenues into operating and capital components. On the basis of discussions with GSA officials, we envision that this change could be made in two steps. As a relatively simple first step, GSA would separate expenditures in the current FBF budget into the categories of operating costs and capital investments and present them this way in the appendix of the President's budget. A more complex second step would entail GSA separating FBF revenues in the financing section into operating and capital components.

Separating Expenditures Into Operating and Capital Components

Table 5.1 illustrates what the FBF budget currently looks like. It has two main sections—a program section and a financing section. The program section provides the detailed cost information by program activity, while the financing section details the financing sources for funding the program activities.

Table 5.2 provides an example of what the FBF budget would look like if the program section was separated into the categories of operating costs and capital investments. Although the program section would consist of the two categories, the total obligation amount ($3,722,401) would remain the same as in table 5.1. As table 5.2 shows, the program section would now consist of an operating component ($2,737,477) and a capital component ($984,924). The financing section would remain unchanged.

The authority to make this change exists in OMB's Circular A-11. Other federal agencies, such as the Tennessee Valley Authority and the Commodity Credit Corporation, currently make this distinction in their budget presentations. GSA officials said that the separation of expenditures into two categories would be a relatively modest change for GSA to make. GSA currently groups program activities into operating and capital categories in schedules that support the FBF budget, but it does not present the information in this form in the appendix of the President's budget.

According to GSA officials, repair and alteration program activity would need attention if operating costs and capital investments were to be separated. GSA would identify the operating costs and the capital investment amounts for repair and alteration projects. In our table, we assumed that repair and alteration projects of $100,000 or more would be classified as capital investments. We used this threshold on the basis of the definition of capital assets used in our previous report.[2]

[2]Budget Issues: Capital Budgeting for the Federal Government (GAO/AFMD-88-44, July 1988) defines capital assets as physical and financial assets. Physical assets are defined as tangible assets that cost $100,000 or more and that provide benefits for more than 2 years.

Table 5.1: Current FBF Budget Program and Financing

Dollars in thousands

	1989 est.
Program by activities	
Construction and acquisition	$294,655
Repairs and alterations	642,225
Purchase contract payments	133,000
Rental of space	1,177,532
Real property operations	882,000
Program direction	49,000
Design and construction	159,090
Special services and improvements	384,899
Total obligations	**3,722,401**
Financing	
Offsetting collections from	
Federal funds	−3,436,739
Nonfederal sources	−4,900
Unobligated balances	
Start of year	−1,051,740
End of year	761,596
Redemption of debt	9,382
Budget authority	0
Relation of obligations to outlays	
Obligations incurred, net	280,762
Obligated balance, start of year	689,007
Obligated balance, end of year	−922,535
Outlays	$47,234

Table 5.2: Restructured FBF Budget Separating Program Costs Into Operating and Capital Components

Dollars in thousands

Program by activities	1989 est.
Operating costs	
Rental of space	$1,177,532
Real property operations	882,000
Program direction	49,000
Special services and improvements	384,899
Repairs and alterations[a]	244,046
Total operating costs	**2,737,477**
Capital investments	
Construction and acquisition	294,655
Purchase contract payments	133,000
Design and construction services	159,090
Repairs and alterations[a]	398,179
Total capital investments	**984,924**
Total obligations	3,722,401
Financing	
Offsetting collections from	
Federal funds	−3,436,739
Nonfederal sources	−4,900
Unobligated balances	
Start of year	−1,051,740
End of year	761,596
Redemption of debt	9,382
Budget authority	0
Relation of obligations to outlays	
Obligations incurred, net	280,762
Obligated balance, start of year	689,007
Obligated balance, end of year	−922,535
Outlays	$47,234

[a]For purposes of this table, repair and alteration projects of less than $100,000 are classified as operating expenses (averaging 38 percent of all repair and alteration projects over the past 3 years) and those of $100,000 or greater are capital investments (62 percent over 3 years).

Second Step: Separating Revenue Into Operating and Capital

Table 5.3 shows what the FBF budget would look like if both the program section and the financing section were separated into operating and capital components. Under this format, the FBF budget would distinguish between operating costs and its revenues and capital investments and its revenues. In addition, this revised budget format would include in FBF's operating costs a charge for depreciation, which represents the consumption of physical assets in a given year.

The budget in table 5.3 has two distinctive features. First, it divides the financing portion of the budget into operating and capital components and calculates outlays for the two components. Second, it shows depreciation as an operating cost and then credits the same amount to the capital section as a source of financing. Depreciation is the systematic allocation of an asset's cost over its useful life. To match costs with related revenues when measuring income or determining the costs of carrying out program activities, depreciation should reflect the asset's use during specific operating periods. Although the depreciation charge does not represent cash disbursements to the public, it does represent an operating cost and the amount made available in the capital budget to finance capital investments; it is, therefore, reported in the budget.

Table 5.3: Restructured FBF Budget Separating Program Costs and Financing Sources Into Operating and Capital Components

Dollars in thousands

	1989 est.	
Program by activities	**Operating**	**Capital**
Rental of space	$1,177,532	$0
Real property operations	882,000	0
Program direction	49,000	0
Special services and improvements	384,899	0
Repairs and alterations	244,046	398,179
Construction and acquisition	0	294,655
Purchase contract payments	81,829	51,171
Design and construction services	0	159,090
Total obligations	**2,819,306**	**903,095**
Depreciation[a]	157,086	0
Total operating costs and investments	**2,976,292**	**903,095**
Financing		
Offsetting collections from		
Federal funds	−2,723,543	−556,110
Federal funds-depreciation	0	−157,086
Nonfederal sources	−4,900	0
Unobligated balances		
Start of year	−363,475	−688,265
End of year	272,612	488,984
Redemption of debt	0	9,382
Budget authority	0	0
Relation of obligations to outlays		
Obligations incurred, net	90,863	189,899
Obligated balance, start of year	68,901	620,106
Obligated balance, end of year	−92,253	−830,282
Outlays	$67,511	−$20,277

[a]For purposes of this table, depreciation is an average of the depreciation amounts in accounting reports for fiscal years 1985 through 1988.

GSA Has an Opportunity to Make Necessary Accounting System Changes

To prepare a capital budget, GSA officials said they would need to modify the accounting system so that necessary information can be provided on outlays for each program activity. The system would also have to provide information on obligated and unobligated balances for each program activity at the start and at the end of each year.

Starting in January 1990, GSA will have the opportunity to make the programming changes in its accounting system needed for these capital budgeting modifications. According to GSA officials, a contractor is currently converting the accounting system from a UNIVAC to an IBM system. The conversion does not include any changes or enhancements to existing GSA accounting programs. However, when the conversion is completed in January 1990, GSA programmers will begin making improvements to the accounting system, and the changes necessary for capital budgeting could be made at that time.

Conclusions

GSA has not determined the optimum level of federal ownership for meeting long-term federal office space needs economically. By preparing a long-range plan that balances the cost benefits of ownership with the flexibility provided by leasing, GSA would be able to demonstrate to Congress the cost savings associated with increased ownership. GSA should support the long-range plan by preparing a capital budget that provides Congress with expected outlays for operations and capital investments.

A capital budget prepared by GSA for FBF would highlight decisions regarding the federal government's investment in buildings and would focus attention on government ownership of assets that produce long-term benefits. The combination of a long-range plan and a capital budget would provide Congress and GSA with a framework for identifying the most economical ways of meeting federal agencies' office space needs. Capital budgets prepared by agencies throughout the federal government would also correct the bias against physical capital investments now evident in the federal unified budget. As a result of its unique role as the government's landlord and physical asset manager, GSA is well suited to demonstrate the benefits of capital budgeting to other federal agencies.

Recommendations

We recommend that Congress direct GSA to

- submit a long-range plan in support of its annual budget requests and for meeting long-term federal office space needs economically and
- provide a model on the benefits of capital budgeting to the federal government.

We also recommend that the Administrator, GSA,

- prepare and periodically update a long-range plan using individual economic analyses to show the facilities for which federal ownership would be the most economical way of meeting long-term federal office space needs;
- initiate plans for a capital budget by separating the activities in the FBF budget into the categories of operating expenses and capital investment, in compliance with OMB Circular A-11; and
- then take a leadership role in demonstrating the benefits of capital budgeting for the federal government by preparing a capital budget; this budget would (1) match expenses and revenues for capital and operating programs and (2) include a charge for depreciation to represent the consumption of physical assets for each year.

Agency Comments

In commenting on our report, GSA said our conclusion that the agency lacks a long-range facility plan was only partially accurate. GSA considers long-range trends and goals in formulating its capital investment program and develops specific projects over a 3-year time span that corresponds to its budget cycle. We believe that although GSA may consider long-range trends in formulating its capital investment program and developing specific projects, its efforts do not constitute a plan identifying total long-range facility needs. As we said in this report, we believe a national long-range facility plan should accompany GSA's budget submission, should be periodically updated, should include economic analysis and comparisons of all projects, and should identify all cost-effective construction.

OMB agreed with our conclusion and has requested GSA to submit plans along with its fiscal year 1991 budget request. GSA and OMB have agreed on a list of capital projects for fiscal years 1991 through 1993 and an allocation of FBF revenue through fiscal year 2000. OMB plans to review the allocation annually and believes this process will permit more orderly management of the Federal Buildings Fund. Although this may be a first step toward developing a long-range plan, we believe that a long-range plan is incomplete if it does not identify all long-range facility needs and the cost-savings associated with capital investment.

GSA and OMB agreed to take initial steps toward capital budgeting in the fiscal year 1991 budget submission.

Comments From the General Services Administration

Administrator
General Services Administration
Washington, DC 20405

September 15, 1989

The Honorable
Charles A. Bowsher
Comptroller General
of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to comment on the draft General Accounting Office (GAO) Audit Report, "General Services Administration's (GSA's) Use of Alternative Financing Methods to Acquire Federal Office Buildings."

GSA agrees with the general conclusions of the draft report that significant savings can be realized by increasing the percentage of federally owned space. Construction of many of the proposed projects would result in great savings over a 30-year period when compared to leasing. Unfortunately, as pointed out in the draft report, limited construction funding has left GSA with no alternative but to lease space in some locations that would be less expensive to own.

We also agree that funding and budgeting constraints limit GSA's ability to increase ownership because construction costs must be funded up front while leasing costs accrue on an annual basis. However, the conclusion that such constraints lead to costly alternative financing techniques needs to be understood in the context of all available financing alternatives. In terms of 30-year present value, the total cost of the lease-purchase alternative is, in most cases, less costly than leasing. At the same time, it is slightly more costly than direct construction. GSA and the Office of Management and Budget (OMB) have initiated the first phase of a joint review of these issues, including Federal housing needs, the status of funds available through the Federal Buildings Fund to meet those needs, and financing policies. The results of the first phase of the study have been made available to the Congress and a copy is enclosed.

Your finding that GSA lacks a long-range ownership plan is only partially accurate. GSA does consider long-range trends and goals in its capital investment program. However, specific project programs are formulated over a 3-year span and executed

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over a longer period. For example, at present, GSA is executing fiscal year 1989 projects and the fiscal year 1990 proposed program is now at Congress. At the same time, the fiscal year 1991 program is under development. For the fiscal year 1992 program and beyond, project lists and the scope/cost of projects are incomplete and subject to change. However, repair and alteration construction program for 1992 will be based primarily on the 1991 design program currently under development. The 3-year cycle corresponds to GSA's budget cycle and is, therefore, more timely for developing the detailed scope of projects although the planning horizon for construction and occupancy is already well beyond 1991.

Your recommendation to undertake capital budgeting will be given serious attention. As an initial step, we have recommended to OMB that the Federal Buildings Fund's capital and operating activities be separated for presentation purposes in the fiscal year 1991 Budget.

Detailed comments have been developed and are enclosed.

Sincerely,

Richard G. Austin
Acting Administrator

Enclosures

Comments From the Office of Management and Budget

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 27, 1989

Mr. Richard L. Fogel
Assistant Comptroller General
General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for the opportunity to respond to the GAO draft report GAO/GGD-89 entitled "Federal Office Space: Increased Ownership Would Result in Significant Savings." We were pleased to find that the GAO study and the joint GSA/OMB Task Force study of the Federal Buildings Fund came to similar conclusions on many of the areas reviewed.

The following is a list of the GAO recommendations to GSA and Congress and an OMB response based on the results of the Task Force study.

1. **GAO Recommendation:** Approve and provide for cost effective building construction projects and purchase opportunities.

   Response: OMB agrees with and supports this position in the joint task force study that was submitted to the Congress on September 7, 1989. Where there is a long term-need, ownership is more cost effective than leasing except where there is a depressed rental market.

2. **GAO Recommendation:** GSA to establish and submit long-range facility plans, based on long-term ownership objectives (in turn based on needs assessments and economic analyses), in support of its annual budget requests.

   Response: OMB agrees with GAO that long range planning is necessary. OMB is requesting that GSA develop and submit regional development plans to OMB as part of the FY 1991 budget hearing process. As part of the joint study, GSA and OMB were able to agree on a current projection of long-term needs (and the criteria for determining them) and an allocation of resources in the Federal Buildings Fund out to the year 2000. This allocation will be reviewed and revised as required, annually. This continuous long-term planning process should permit more orderly management of the Federal Buildings Fund.

3. **GAO Recommendation:** Remove restrictions on rent paid to GSA by tenant agencies.

   Response: The task force recommended that Congress remove any restrictions on the RENT paid by the tenant agencies, and GSA and OMB will be working with the Congress to achieve legislation to this end.

4. **GAO Recommendation:** Refrain from authorizing costly alternative financing methods and substitute less costly alternative financing methods such as borrowing through the Treasury's Federal Financing Bank or provide direct appropriations.

   Response: We agree that Congress should "stop directing GSA to use alternative financing techniques, such as lease purchase agreements" for specific buildings. Ideally, construction and purchases should be financed through direct appropriations. This would be the least-cost financing alternative. Federal Financing Bank (FFB) financing would be second best (12.5 basis points above the Treasury rate).

   The problem is current budget constraints do not permit direct appropriations or FFB financing (now on-budget); and taking FFB back off-budget could open the door to a wide variety of devices that would circumvent Gramm-Rudman-Hollings ground rules.

   On the other hand, GSA and OMB plan to work with Congress to achieve legislation to authorize GSA to enter into least-cost financing mechanisms (no more than 75 basis points above comparable Treasuries and subject to OMB case-by-case determinations that each such financing results in a net benefit to the Government). This authority would be limited to meet projected FFB deficits in FY 91, 92, and 93 of up to $2.5 billion and exempt specified and approved transactions from the Anti-Deficiency Act. Extension of any such legislative authority would depend on future results of the GSA-OMB planning mechanism mentioned above.

   Congress, in authorizing GSA to enter into lease-purchase arrangements with regard to specific buildings, and exempting these purchases from the Anti-Deficiency Act, has authorized transactions which could well be neither well targeted nor least-cost.

5. **GAO Recommendation:** Direct GSA to provide a model of the benefits of capital budgeting for the Federal Government.

   Response: OMB has requested GSA's Public Buildings Service to present a capital budget to accompany its FY 1991 budget submission.

6. **GAO Recommendation:** GSA should seek Congressional approval and funding for building construction projects and purchase opportunities that represent cost-effective alternatives to leasing.

   Response: As noted above, we will be working with Congress to this end.

The findings in GAO's draft report are similar to those of the joint GSA/OMB task force. A copy of the Joint Task Force report is enclosed.

We would welcome the opportunity to discuss our findings with you or members of your staff. We would also welcome the opportunity to work with GAO generally in the development of a better and more cost effective system to finance those office and other space needs of the Federal Government which are clearly required and of a long-term nature.

Sincerely,

Frank Hodsoll

Frank Hodsoll
Executive Associate Director

Enclosure

Methodology Used to Determine the Long-Term Potential Cost Savings Associated With Construction

To determine the long-term potential cost savings associated with constructing buildings instead of leasing space, we analyzed 43 construction projects proposed by GSA between fiscal years 1991 and 1995. For 24 of the 43 projects, GSA made economic analyses comparing leasing with constructing or purchasing. GSA had not done economic analyses for the other 19 projects, because they were not actively under consideration. For the 19 proposed projects lacking economic studies, we obtained GSA cost data and did analyses comparing leasing with construction using The Automated Prospectus System (TAPS), the computer program GSA uses for its economic studies. TAPS allows the user to generate required economic analysis reports that analyze potential real estate projects in accordance with OMB Circular A-104.

OMB Circular A-104 specifies that the comparison of project alternatives should be in present value terms. One of the most fundamental problems in comparing alternatives is that costs occur at different times. To make valid comparisons between construction and leasing, all values, whether benefits or costs, should be in terms of present values. In the case of real estate, the analysis is typically conducted over a 30-year period.

In doing our economic analyses, we obtained GSA cost data and did the analysis using the same computer program GSA uses for its economic studies. We obtained data from five sources. First, we used values assigned by GSA headquarters. Second, we obtained project-specific data from GSA's headquarters and regional offices. Third, we used values from the TAPS program default settings.[1] Fourth, we used values calculated internally by the program on the basis of other input values. Finally, we assumed several values in cases where the information was unavailable. Table III.1 shows the types and sources of data used.

Table III.1: Type and Source of Data Used in Economic Analyses Done by GAO

Type of data	Source of data
GSA-prescribed values	GSA headquarters
Project-specific data	GSA regional offices and headquarters
TAPS default settings	TAPS program
TAPS internal calculations	TAPS program
GAO assumptions	GAO

[1] Default settings are pre-established values in the program that are used in the calculations if actual values are not entered for the data used in the analyses.

GSA-Prescribed Values

In doing the TAPS A-104 analysis, the regional offices, as directed by GSA headquarters, use the values listed in GSA's Capital Improvement and Leasing Program Planning Call. Table III.2 shows the values listed in the Planning Call. In its comparisons, GSA uses many of the same values for both the leasing and the construction alternatives. However, in some cases, one of the alternatives requires a different value not used in the other alternative.

Table III.2: GSA Headquarters-Directed Values

Variable name	Value
Type	Lease or construction
Number of years leased	30
Number of years occupied	30 years less interim housing
Major repairs and alterations (leasing)	$0
Major repairs and alterations (construction)	$1.73
GSA management cost (leasing)	$ .50
GSA management cost (construction)	$ .70
Tenant alterations	$1.19
Inflation rate	4%
Projected value (construction)	Inflation rate
Real estate inflation rate (construction)	4%
Real estate obsolescence factor (construction)	20%
Ownership (leasing)	Corporate
Tax bracket	34%
Remaining real property basis (leasing)	70% of estimated construction costs
Depreciation life for remaining real property basis (leasing)	31.5
Economic life for remaining real property basis (leasing)	40
Furniture, fixtures and equipment depreciation life (leasing)	7
Furniture, fixture and equipment, economic life (leasing)	12
30-year Treasury rate	9%

Project-Specific Data

We obtained data on particular projects from two sources. First, we obtained project-specific data, such as square footage, from the GSA list of proposed construction projects for fiscal years 1991 through 1995 and from GSA regional offices and GSA headquarters. Second, we obtained data for classes of projects, such as number of years needed to design and construct projects costing $250 million, from the regional offices and headquarters.

For 15 of the variables, we used project-specific data provided to us by GSA's regional offices and headquarters. These variables follow.

1. Project name
2. Occupiable square feet
3. Year analysis begins
4. Year lease begins
5. Net, net rent per occupiable square feet
6. Year of design award
7. Year project opens
8. Estimated construction cost
9. Estimated design & review cost
10. Estimated management & inspection cost
11. Number of years for design & construction
12. Estimated cost or value of land
13. Land status
14. Taxes & insurance
15. Services & utilities

Rather than use the default setting of 4 years, we used project-specific data to determine the number of years needed to design and construct projects. As a result of discussions with an agency official, we calculated this variable using GSA tables that show the relationship between the estimated cost of construction and the duration of design and construction. GSA's tables show a positive relationship between the size of the project and the length of the design and construction period.

TAPS A-104 Default Values

For those buildings on which specific data were not available and for which values had not been defined by the GSA headquarters, we used the computer default settings contained in the TAPS program, as shown in table III.3.

Table III.3: Default Settings Used

Variable name	Value
Average lease term in years	5
Construction inflation rate	4%
Tax credits	0
Regular private sector rate	11%

Program Calculations

In several instances, the TAPS program makes a calculation on one input value to determine another input value. For example, the program calculates the gross square footage on the basis of the value that the user inputs for the occupiable square footage of a building. We used values calculated by the program for the variables "gross square footage" and "furniture, fixtures, and equipment basis."

Assumptions on Variables

We made several assumptions for variables so project-specific that GSA officials were unable to provide values. In other cases, GSA suggested values for the purposes of our analysis. Values for which we made assumptions are shown in table III.4.

Table III.4: Assumptions Made

Variable name	Value
Year today's dollars	1989
Year present values	1989
Interim housing costs per year	Estimated as 1 year of lease costs
Initial space alterations	0
Moving and relocation costs	0
Occupiable square footage outleased	0
Outleasing lease term	0
Full-service outleases	0
Irregular lease rates	0
Irregular outleasing income	0
Irregular interim housing	0

We based the TAPS analysis on 1989 dollar values. Accordingly, we converted financial data entered into the TAPS program to 1989 dollars and we entered 1989 as the year for today's dollars and as the year for present values.

We estimated annual interim housing costs for construction by assuming that 1 year of leasing approximated 1 year of interim housing. For the leasing alternative, we did not differentiate between lease costs and interim housing costs for the lease analysis.

On the basis of discussions with GSA officials, we assumed a zero value for the initial space alterations and moving and relocation costs.

We assumed no outleasing of space to a commercial tenant in the construction alternative because the amount of outleasing is project-specific and difficult to estimate for projects not yet well defined. Since outleasing generates revenue for the agency, our decision to assume no outleasing may result in the understatement of the cost savings for construction over leasing. We also assumed that all lease rates and interim housing costs were constant over time.

Calculating Actual Future Outlays

In addition to calculating the 30-year present-value costs for construction and leasing, we estimated the actual inflated future outlays accruing over a 30-year period.

For 23 analyses, GAO generated or obtained from GSA detailed economic analyses that showed, on a year-by-year account, the costs of construction and leasing over a 30-year period in inflated dollars. For these economic analyses, we totaled the actual outlays for each alternative over a 30-year period and calculated the cost differences between construction and leasing for each project.

For those cases without a detailed A-104 analysis, we estimated the inflated cost savings by applying a ratio of present value to inflated savings developed from those cases for which an A-104 analysis was available.

Lease-Purchase Projects Authorized by Congress as of May 31, 1989

Location	Description	Authorizing legislation/date	Anti-deficiency waiver/date[a]
Oakland, CA	Cost not to exceed $141.7 million	P.L. 100-202/12-22-87	P.L. 100-440/9-22-88
San Francisco, CA	430,000 occupiable square feet	P.L. 100-202	P.L. 100-440
Chicago, IL	Not to exceed 600,000 square feet	P.L. 99-591/10-30-86 and P.L. 100-202	P.L. 100-202
International Cultural and Trade Center, D.C.	Not to exceed 3,100,000 gross square feet	P.L. 100-113/8-21-87	P.L. 100-113[b]
New York, NY	Two buildings not to exceed 1,600,000 gross square feet	P.L. 100-202	P.L. 100-202[c]
Environmental Protection Agency, D.C.	1.4 million occupiable square feet	P.L. 100-202	P.L. 100-440
Department of Transportation, D.C.	1.8 million occupiable square feet	P.L. 100-202	P.L. 100-440
Memphis, TN (Internal Revenue Service)	600,000 gross square feet, not to exceed $36 million	P.L. 100-440	P.L. 100-440
Chamblee, GA (Centers for Disease Control)	40,000 net square feet	P.L. 100-440	P.L. 100-440

[a]The Anti-Deficiency Act prohibits federal officials from making or authorizing expenditures or obligations in excess of amounts available in appropriations; lease payments are recorded on an annual, rather than a total, basis, like the total payments of a constructed or purchased building.

[b]P.L. 100-113 states that, to meet lease payments, obligations of funds from the FBF shall be made only on an annual basis.

[c]P.L. 100-202 states that GSA may make annual lease or installment payments from funds available for the rental of space in FBF.

Interest Cost Comparison of Alternative Financing Techniques With Treasury Borrowing

Since 1972, GSA has used two types of alternative financing techniques to acquire office buildings. The first was purchase contract authority granted in the Public Buildings Amendments of 1972. Under this authority, GSA obtained $697 million through the sale of mortgage-backed securities (certificates of participation) to investors. The second technique, lease-purchase, involves entering into long-term lease agreements with developers in which the federal government owns the building at the end of the lease.

The following tables show the estimated costs of borrowing using mortgage-backed securities and lease-purchase agreements as compared with borrowing at the long-term Treasury rate.

Table V.1: Mortgage-Backed Securities

Dollars in millions

	Purchase contract	Treasury rate	Difference
Amount borrowed	$697.1	$697.1	•
Analysis period	30 years	30 years	•
Interest rate[a]	7.125%[b] to 8.200%	5.510%[c] to 6.920%	1.89%[d] to 1.28%
Total of payments over 30 years[e]	$1,748.2	$1,533.9	$214.3
Present value in 1988 dollars[f]	$1,975.2	$1,687.5	$287.7

[a]Interest rates are shown as a range because of various issuance dates for securities (11/72 through 2/76).

[b]Securities issued in November 1972 pay interest rates from 7.125 to 7.400 percent.

[c]Interest rates shown for Treasury borrowing are for 20-year bonds. The Federal Reserve Bulletin reported 20-year Treasury rates as the long-term government interest rates during this time period.

[d]The largest difference was between the 7.400 percent rate on some of the securities issued in November 1972 and the Treasury rate of 5.510 percent at that time.

[e]Amounts represent the total estimated payments over the term of the borrowing. The amount borrowed is not fully amortized because the securities indenture agreements required mandatory redemptions of a percentage of the outstanding debt in years 3 through 30.

[f]Present value calculations were made by using the Treasury rate at the time of issuance as the discount rate. Present values were then adjusted to 1988 dollars.

Table V.2: Chicago Federal Building

Dollars in millions

	Lease-purchase	Treasury rate	Difference
Amount borrowed	$153.1	$153.1	•
Analysis period	30 years	30 years	•
Interest rate[a]	9.800%	8.980%	.82%
Total of payments over 30 years[b]	$475.6	$442.7	$32.9
Present value[c]	$164.5	$153.1	$11.4

[a]The lease-purchase agreement was for a long-term financing rate of .82 percent over the 30-year Treasury bond rate at the time GSA accepts the building. Interest rates shown are based on the Treasury bond rate as of 12/13/88 (8.980 percent).

[b]Amounts represent the total estimated payments over the term of the borrowing. For lease-purchase agreements, the amount borrowed is fully amortized over a 30-year period.

[c]Present value calculations were made using the Treasury rate (8.980 percent) at the time of the agreement as the discount rate.

Table V.3: Oakland Federal Building

Dollars in millions

	Lease-purchase	Treasury rate	Difference
Amount borrowed	$165.3	$165.3	•
Analysis period	30 years	30 years	•
Interest rate[a]	9.970%	9.150%	.82%
Total of payments over 30 years[b]	$521.0	$485.3	$35.7
Present value in 1988 dollars[c]	$169.7	$158.1	$11.6

[a]The lease-purchase agreement was for a long-term financing rate of .82 percent over the 30-year Treasury bond rate at the time GSA accepts the building. Interest rates shown are based on the Treasury bond rate as of 3/17/89 (9.150 percent).

[b]Amounts represent the total estimated payments over the term of the borrowing. For lease-purchase agreements, the amount borrowed is fully amortized over a 30-year period.

[c]Present value calculations were made using the Treasury rate at the time of the agreement as the discount rate (9.150 percent). Present values were then adjusted to 1988 dollars.

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Glossary

Alternative Financing Techniques	Financing methods that use funds borrowed at interest rates above the 30-year Treasury bond rate. GSA has used two alternative financing techniques since 1972—mortgage-backed securities sold to investors under purchase-contract authority and lease-purchase agreements with developers.
Capital Budget	In GAO's capital budget proposal, the capital budget of the unified budget segregates capital revenues and capital investments from the operating budget's revenues and expenses. Capital revenues and capital investments are excluded from calculations of the operating budget's surplus or deficit, but the operating budget is charged for depreciation.
Capital Investments	In GAO's capital budgeting proposal, capital investments include physical assets and financial assets. See physical assets and financial assets.
Capital Revenues	In GAO's capital budgeting proposal, this term includes amounts that are earmarked by law to finance physical and financial assets.
Depreciation	The systematic and rational allocation of the costs (historical, replacement, or current value) of equipment and buildings (having a life of more than 2 years) over their useful lives. To match costs with related revenues when measuring income or determining the costs of carrying out program activities, depreciation should reflect the use of the asset during specific operating periods.
Expenditures	In the Anti-Deficiency Act (31 U.S.C. 1341) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344, 2 U.S.C. 681 et seq.), the term expenditures has the same definition as outlays. See outlays.
Expenses	In GAO's capital budgeting proposal, expenses represent the cost of the federal government's operations. They include outlays for civil and defense functions, interest on debt, and depreciation.

Financial Assets

In GAO's capital budgeting proposal, financial assets include any legal instrument, such as bonds, notes, and other securities, held by the federal government.

Lease-Purchase Agreement

An agreement between a lessor and a lessee in which the lessee agrees to lease a building for a given length of time and then takes title to the building at the end of the lease period.

Mortgage-Backed Securities

Repayment of the securities (certificates of participation in which the certificate holder shares in the rental receipts) issued under purchase-contract authority are secured by the projects constructed; the projects are constructed with the proceeds from the sale of the certificates. Title to the projects is vested in the trustee to benefit the investors until the certificates are paid. In the event of default, the trustee may take possession of the building projects and collect rent.

Operating Budget

In GAO's capital budgeting proposal, the operating budget consists of all revenues and operating expenses for programs and activities that are not classified as capital investments.

Outlays

Payments made through the issuance of checks, the disbursement of cash, or the transfer of electronic funds; these payments liquidate obligations.

Physical Assets

In GAO's capital budgeting proposal, physical assets are assets with form and substance (tangible), whose ownership resides or will reside, in the public domain; which typically provide services or benefits for more than 2 years; and which cost $100,000 or more.

Present-Value Cost Analysis

An analysis of the cost of alternatives available to GSA in providing space needed by the federal government. The analysis considers all costs that would accrue over a 30-year period if buildings providing the required amount of space were purchased, leased, or constructed. The present values of the accrued costs are determined by calculating the amount of money that would have to be invested today to grow to the total of the accrued costs, given a particular interest rate. GSA is required to make the economic analysis by OMB's Circular A-104.

Purchase-Contract Authority

Three-year authority granted to GSA in the Public Buildings Amendments of 1972 (P.L. 92-313) to enter into purchase contracts for the construction of a backlog of approved but unfunded projects. GSA used purchase-contract authority to obtain 68 buildings containing about 15 million square feet of occupiable space.

Revenues

In GAO's capital budgeting proposal, revenues are collections received (by cash, check, or electronic funds transfer) for public use. They include general taxes, earmarked taxes, and other revenues.

Scorekeeping

Procedures for tracking and reporting on the status of budgetary actions, including tabulations and reports on actions affecting budget authority, receipts, outlays, the surplus or deficit, and the public debt limit.

Unified Budget

The present form of the federal government's budget in which receipts and outlays from both federal funds and trust funds are consolidated.

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