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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Mr. Chairman:

Your letter of July 6, 1971, requested that we provide you with reports or other information on our study of the office-leasing practices of the General Services Administration (GSA). This is an interim report on our findings on the review that we had in process at the time of your request. We plan to send you a copy of our report to the Congress on the final results of our review. 17

GSA is responsible for effectively and efficiently acquiring, by purchase or lease, buildings to meet Federal agency space needs. At June 30, 1970, GSA was responsible for the management of about 217 million square feet of space, of which 54 million square feet, or 25 percent, were leased at an annual rental of about \$184 million.

GSA's policy provides for constructing or purchasing a building, whenever possible. The policy provides also for leasing a building when requirements in a particular community are insufficient to warrant the construction of a public building, or the completion of a new building cannot be assured within a reasonable period of time. Because of budgetary restrictions on Federal construction, the expansion of the Federal work force, and the demolition of temporary buildings, GSA increased its leased space by about 9.5 million square feet in the past 5 years, most of which was in new buildings in the Washington, D.C., area.

GSA is authorized by law to enter into a lease agreement for a period up to 20 years for a building in existence or to be erected by a lessor. Since fiscal year 1963, GSA's annual appropriation acts have contained a provision limiting GSA's leasing activities involving new construction. The acts have provided that no funds be used for the payment of rent for a building "to be erected" by the lessor for such Federal agencies at a construction cost in excess of \$200,000 unless a prospectus for lease construction has been approved by the House and Senate Committees on Public Works.

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As of June 30, 1971, 14 of the 21 lease construction prospectuses submitted by GSA, in compliance with this provision, had been approved by both the House and Senate Committees on Public Works.

C4 In June 1969 the House Committee on Appropriations expressed its belief that it was false economy to continue to defer construction of needed public buildings and urged GSA to resume a reasonable construction program. The Committee stated that: H300

***it is wasteful for the Government to continue to delay construction of needed public buildings in the face of higher construction, labor and material costs in the future, and the continuing necessity of leasing substantial space."

In October 1969 the Senate Committee on Public Works informed GSA that it would not consider any more lease construction prospectuses, except in dire emergency, until 50 percent of the public building projects authorized by the Congress were funded for construction.

C5 In November 1969 the Senate Committee on Appropriations stated its concurrence with its counterpart in the House and endorsed the action taken by the Senate Committee on Public Works. The Senate Committee expressed concern about the growing practice of leasing and urged the Administrator of General Services to support the construction of needed public buildings as the most economical way of providing housing for Federal agencies. S300

Both Government-owned and Government-leased space under GSA control have increased during recent years. Government-owned space increased from 149.8 million square feet in fiscal year 1966 to 163.2 million square feet in fiscal year 1970. During the same period leased space increased from 44.6 million square feet to 54.1 million square feet. Most of the increase in leased space was in the Washington metropolitan area.

One of the major reasons for increased leasing of space has been the budgetary restrictions on GSA's construction program. The President of the United States, in his January 1968 budget message to the Congress, stated that, to hold budget totals to a minimum, a determined effort was being made to slow the pace of federally financed construction

programs as much as possible, consistent with orderly government and sound practices. No funds were requested for GSA's construction program in fiscal year 1969, and \$143 million of previously funded GSA construction was deferred.

GSA construction was deferred further in September 1969 when the President directed a 75-percent reduction in new construction to accommodate, without undue inflationary pressure on the construction industry, those projects having the highest social priority. This directive was rescinded in April 1971.

GSA proposed a construction budget of \$12.8 million for fiscal year 1970, but the Congress appropriated \$26.5 million. For fiscal year 1971, GSA proposed a substantially increased construction budget of \$101.7 million. The Congress, however, appropriated \$133.6 million. At the beginning of fiscal year 1971, GSA had a backlog of about 80 authorized projects that would have required construction funding of about \$870 million.

Our review of 25 of 31 leases entered into by GSA in two of its regions during fiscal years 1967 through 1971 showed that GSA did not obtain congressional approval of prospectuses for the private construction and leasing to the Government of 11 buildings. In each case construction costs exceeded \$200,000. The buildings had an appraised value of about \$134 million and were leased for long terms at an annual rental of about \$19 million. Although the buildings were constructed to meet GSA's space requirements, they were not identified by GSA as buildings to be erected, which, in accordance with the annual appropriation acts, must be approved individually by the Congress.

GSA considers that the to-be-erected provision in the annual appropriation acts is not applicable to a building that GSA classifies as under construction on the date of issuance of the lease solicitation. Although physical construction of a building, such as site preparation, excavation, and foundation work, may not have been started, GSA classifies the building "under construction" if five conditions specified in its regulations are met. These conditions are:

1. Title to the site is vested in the bidder or the bidder possesses such control over the site to enable starting construction.

2. Design is complete. (GSA considers the design to be complete when it is possible for the offeror to obtain a building permit for the entire structure and to enter into a firm construction contract.)
3. Construction financing is fully committed.
4. Building permit has been issued.
5. Construction contract has been entered into or actual construction is in process.

GSA, through discussions and letters, made known its space requirements to developers interested in constructing buildings for leasing to the Government. When GSA first contacted the developers who eventually were awarded the 11 leases, none of them had buildings under construction or had building permits and six of them did not own or control the land for the building sites. GSA required the developers to furnish preliminary information about their plans to construct buildings and their tentative rental rates and to submit documents and plans before issuance of solicitations for lease of buildings to determine whether the buildings could be classified as being under construction in accordance with the five conditions specified in its regulations.

GSA determined, before the award of the leases, that the provision in the annual appropriation acts, requiring congressional approval of lease construction prospectuses, was not applicable because the buildings were classified as being under construction, although physical construction had not started on nine of the 11 buildings until after the leases were awarded.

This practice of making advance arrangements with developers has limited participation in bidding because the lease solicitations, in effect, limited bids from developers that had met GSA's five conditions or had buildings under construction. As a result eight of the preselected developers were awarded leases on the basis of single bids.

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Leases for three of the four buildings cited in your letter of July 6, 1971, were included in our review. The lease for Office Building Number 1 located at Friendship International Airport in Maryland was not one of the 11 leases we reviewed. This building was under construction by the lessor prior to GSA's lease solicitation and was not leased under the five-point program.

C6 We have also received a request from Senator William Proxmire for a report on GSA's leasing practices, and we are furnishing him with a similar report.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

Comptroller General
of the United States

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The Honorable Chet Holifield
Chairman, Committee on
Government Operations
House of Representatives

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