DOCUMENT RESUME

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[Information concerning the New Federal Office Building in Indianapolis, Indiana]. LCD-77-346; B-186890. June 2, 1977. Released June 21, 1977. 6 pp. : 2 enclosures (6 pp.).

Report to Rep. Andrew Jacobs, Jr.; by Robert G. Rothwell (for Fred J. Shafer, Director, Logistics and Communications Div.).

Issue Area: Facilities and Material Management (700).
Contact: Logistics and Communications Div.
Budget Function: General Government: General Property and Records Management (804).
Organization Concerned: General Services Administration.
Congressional Relevance: Rep. Andrew Jacobs, Jr.
Authority: P.L. 92-313. B-160851 (1973).

GAO reviewed the following aspects of the construction of a new Federal office building in Indianapolis, Indiana: the rejection by the General Services Administration (GSA) of a food-service bidder's offer to install cafeteria equipment; the investors in the participation certificates related to the building contracts; and the ultimate cost of the building. Findings/Conclusions: The principal reasons for GSA's rejection of the food-bidder's offer were: a contract holder who furnished equipment would have an unfair advantage over competitors in bidding for subsequent awards; and when contractors change, service would be interrupted probably for several months while one contractor removed its equipment and the other installed its own. Funds for the construction of the building and four other Federal buildings were obtained in 1972 from the sale of 30-year participation certificates in the total amount of $196.5 million. The series of certificates that corresponded approximately to the award for the Indianapolis project amounted to $22.7 million. GAO estimates that the purchase payments allocable to the Indianapolis building (principal, interest, administrative costs, and taxes), together with the other payments from appropriated funds, will amount to about $63.7 million when the Government takes title to the building. (Author/QM)

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

02615

LOGISTICS AND COMMUNICATIONS DIVISION

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B-18689

The Honorable Andrew Jacobs, Jr. JUN 2 1977
House of Representatives

Dear Mr. Jacobs:

This is in further response to your request for information about the new Federal office building in Indianapolis, Indiana. You were particularly interested in the rejection by the General Services Administration (GSA) of a food-service bidder's offer to install cafeteria equipment, the investors in the participation certificates related to the building contracts, and the ultimate cost of the building. GSA has reviewed the draft of this report and generally agrees with the information provided (Enclosure I).

FOOD-SERVICE CONTRACT

We previously discussed the food-service contract by telephone with Mr. Pat Traub of your Indianapolis office. On the basis of our discussions with GSA officials, we were satisfied that GSA as a matter of policy would neither require nor permit a concessionaire to furnish or install cafeteria equipment. The principal reasons are: (1) a contract holder who furnished equipment would have an unfair advantage over competitors in bidding for subsequent awards, and (2) when contractors change, service would be interrupted probably for several months while one contractor removed its equipment and the successor installed its own. GSA is also concerned about equipment standards and compatibility with building design, and for that reason prefers to furnish such equipment.

Pursuant to that policy, GSA viewed the offer of the bidder in question to furnish equipment as non-responsive (in effect a counter-offer) to its food-service solicitation. The bid was accepted as responsive in all other respects and was evaluated on that basis. Even if an exception to its policy could have been made, GSA would have had to resubmit its request for proposals to all offerors to give them an opportunity to bid on equal terms.

LCD-77-346

In our judgment there was no need to further investigate the food-service contract, and Mr. Traub agreed.

IDENTIFICATION OF INVESTORS

Our interim report to you (LCD-77-306, November 11, 1976) provided selected information about investors, as agreed with your office. Funds for the construction of the Indianapolis building and four other Federal buildings were obtained in 1972 from the sale of 30-year participation certificates in the total amount of $196.5 million. Five series of certificates--Series A, B, C, D, and E--were sold between October 30 and November 3, 1972, for the joint funding of the five building projects. Because Series D ($22.7 million) corresponded approximately to the award for the Indianapolis project, we furnished you information on that Series. It consisted of those holdings of $100,000 or more and a summary of the other 787 holdings, according to information available at GSA at the time.

ULTIMATE COST OF THE BUILDING

Funding operations pursuant to the purchase contract and trust indenture for the Series A-E Participation Certificates resulted in the construction of the five buildings --held in trust by the trustee and leased to the Government without further cost--to be conveyed to the Government when all principal, interest, administrative costs, and taxes have been paid in accordance with the trust indenture. The ultimate cost to the Government will be the sum of such purchase payments made to the trustee out of appropriated funds and any other payments from appropriated funds, such as taxes paid by GSA directly to local authorities and GSA's project planning and supervision costs. We estimate that the purchase payments allocable to the Indianapolis building, together with the other payments from appropriated funds, will amount to about $63.7 million when the Government takes title to the building in the year 2002. A discussion of our estimates follows.

Background

Prior to November 1, 1975, construction and debt service was financed by the trustee from funds produced by sales of the participation certificates and reinvested proceeds. Trust funding operations covered project contract costs, administrative expenses, taxes, and interest on participation certificates during construction. In addition, some certificates were redeemed with funds not needed for the other purposes. Of these fund applications, only the contract costs and taxes can be directly related to specific building projects.

Because contract costs of construction paid from trust funds can be identified with specific projects, and the objective of the purchase contract program was to finance the construction, we believe that the actual contract costs provide a reasonable basis for allocating total purchase costs to the individual projects. Contract costs of the Indianapolis building were 9.6 percent of the total contract costs of the five projects.

Principal and Interest Payments

On November 1, 1975, the $3,983,913 remainder of the trust funds available for interest and $3,055,240 of appropriated funds was applied to interest payments due on that date. That use of appropriated funds constituted the first direct payment toward purchase of the projects by the Government. Subsequent payments from appropriated funds have been $14,034,662 for interest due in May and November 1976 and $1,255,000 for a mandatory principal payment on November 1, 1976.

After the November 1976 payment, the outstanding principal amount (face value) of participation certificates was $190,785,000. Under the trust indenture, this amount is to be paid in annual installments of increasing amounts through the year 2001, with any final balance due on November 1, 2002. The Government has the right to make optional or voluntary payments, and any such payments would reduce the total amount of interest to be paid.

To estimate total principal and interest payments from appropriated funds, we assumed that the outstanding principal amount will be paid off according to the indenture redemption schedule. Although the trustee has the discretion to select from any or all Series the certificates to be redeemed, we assumed that redemptions will be made in proportion to the outstanding amounts of each Series on November 1, 1976. Such an assumption is necessary because each Series bears interest at a different rate, ranging from 7.125 to 7.4 percent. We used a weighted average interest rate of 7.2853 percent based on the aggregate of the interest payable on the outstanding balances at November 1, 1976.

Using these assumptions, we estimate that the Government will pay a total of $439,089,271 principal and interest from appropriated funds for the five buildings. On the basis of 9.6 percent of contract costs, $42,152,570 of that amount is allocable to the Indianapolis building ($18,435,840 principal and $23,716,730 interest).

Administrative Expenses

The trust agreement provides for payment of reasonable and necessary expenses for financial advice, special legal counsel, printing, and general administration, including fees and expenses of the trustee. During construction, these costs were paid out of the funds held by the trustee. Most of the expenses during that period were for financial advisor's service, special legal counsel, printing and engraving of certificates and other documents, and marketing the certificates.

Recurring administrative expenses include the Trustee's charges for maintaining accounts, handling certificates (receipt, inspection, cancellation, registration, and reissue) and payment of interest (cost and preparation of checks, postage, registry, and insurance). On the basis of a $5,241 average billing for these services for 1974 and 1975, we estimated that $5,000 would be a reasonable annual allowance, and that the probable decline in the number of transactions would be offset by cost escalation. We projected costs of $135,000 for the years 1976 through 2002.

The trustee also receives a fee based on the outstanding value of certificates during each annual period. For the period ended November 14, 1975, the fee was $35 per million of outstanding certificates. Using that rate together with GSA's suggested escalation factor of 1 percent per annum, we estimated that fees through the year 2002 will amount to about $130,000.

Of the total of $265,000 estimated administrative expenses and fees, the 9.6 percent portion applicable to the Indianapolis project would be $26,554.

Taxes

Beginning with the tax year 1974, Marion County, Indiana, began assessing the Federal office building. The land, which is Federal property leased to the trustee for the duration of the trust, was not assessed. Taxes of $135,196 were paid from appropriated funds in 1975 and $479,613 in 1976. GSA has estimated that 1976 taxes, payable in 1977, will be $520,380 based on a final incremental assessment. Using 1976 taxes and an escalation factor of 3 percent per annum as suggested by GSA, we estimated that tax payments through the year 2002 will be $20,649,338 for the Indianapolis building.

GSA Direct Costs

Appropriated fund costs incurred by GSA for planning and supervision of the Indianapolis project were $14,251 for site surveys and appraisals, $545,434 for design, and $285,243 for management inspections. The total of these costs, known as Budget Activity 51, amounted to $844,928.

We did not allocate to the Indianapolis project any overhead costs of regular GSA operations at headquarters or regional offices. We assumed that such costs would be incurred in any event and would not be significantly affected by any particular project.

Summary of Estimated Costs

We believe that our estimates and allocations, as summarized below, fairly represent the ultimate cost of the Indianapolis Federal office building.

Principal and interest payments	$42,152,570
Administrative expenses	26,554
Taxes	20,649,338
GSA direct costs (Budget Activity 51)	844,928
Total estimated costs	$63,673,390

The accuracy of our estimates depends on the validity of the several assumptions we made. Optional (early) principal payments for redemption of participation certificates are the most likely variation from those assumptions. GSA financial managers told us that such payments will be governed by interest rates. When the cost of Treasury borrowing is sufficiently less than participation certificate interest, GSA may accelerate payments.

At the request of the Chairman of the Senate Committee on Public Works, we reported on GSA's use of the 3-year purchase contract authority under Section 5, Public Law 92-313. Because of your interest in the financing of public buildings, we are forwarding a copy of that report (B-160851, May 25, 1973) (Enclosure II).

We understand that GSA made some comparative analysis of financing space requirements in Indianapolis through construction, leasing, and lease-purchase arrangements. We did not review this information, which you may obtain from GSA upon request if you are interested.

We trust that this information will be suitable for the purpose of your inquiry. If we can be of further assistance, please let us know.

Sincerely yours,

R. G. Rothwell

for Fred J. Shafer
Director

Enclosures (2)

 ENCLOSURE I

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, D.C. 20405

May 12, 1977

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Staats:

Thank you for the opportunity to review and comment on your draft report on the General Services Administration's (GSA) financing and food-service agreements concerning the new Federal office building in Indianapolis, Indiana.

We concur in your determination that GSA acted in accordance with established policies and procedures in the evaluation of proposals and the award of a food-service contract for the new Indianapolis building. We are also in agreement with the information contained in the report regarding the investors in the participation certificates related to the building construction contracts and the ultimate cost of the building.

However, we suggest that the last paragraph on page 6 of the report be deleted. This paragraph refers to a comparative analysis of alternate means of financing space which we feel is unrelated to the apparent intent of the report. [See GAO Note.]

If you have any questions, please do not hesitate to call on us.

Sincerely,

Robert T. Griffin
Robert T. Griffin
Deputy Administrator

GAO Note:

The reference is to the first paragraph on page 6 of the final report. The paragraph is pertinent to the Congressman's inquiry about the cost of housing Federal agencies in Indianapolis, Indiana.

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

B-160851

MAY 25 1973

The Honorable Jennings Randolph
Chairman, Committee on Public Works
United States Senate

Dear Mr. Chairman:

Your April 20, 1973, letter requested that we obtain information and report to your Committee on the interest costs for participation certificates sold by the General Services Administration (GSA) compared with those for Treasury obligations.

Section 5 of Public Law 92-313, dated June 16, 1972, authorized GSA for 3 years to make purchase contracts with independent contractors which would finance and construct public buildings to GSA specifications. GSA would make periodic installment payments during the contract period to amortize construction and financing costs. After the contract period, not to exceed 30 years, title to the buildings would transfer to the Government.

In supporting this law GSA asked the Congress in 1971 for purchase contract authority for 3 years as a stopgap expedient for eliminating the backlog of congressionally approved but unfunded Federal construction projects. At that time, GSA listed a backlog of 63 projects, with estimated construction costs of about $750 million, that could be built under purchase contract arrangements. For various reasons GSA withdrew nine projects from its 1971 list and added another nine projects which the Public Works Committees had approved after Public Law 92-313 had been enacted.

As of March 31, 1973, GSA, under its purchase contract authority, had obtained about $626.8 million for financing 37 projects consisting of $104.3 million for 23 projects under a package system and $522.5 million for 14 projects under a dual system.

Under the package system GSA has contracted with independent contractors, on a competitive-bid basis, for the construction and the financing of the 23 projects. Under the dual system GSA awarded separate contracts, or had awards pending, for construction of the 14 projects and obtained the project financing through the sale of 30-year participation certificates by the GSA trustee, the First National City Bank, New York.

Public Law 92-313 and its legislative history are silent concerning the financing with participation certificates. The Comptroller General has ruled, however, that this method is within the framework of the law. Also, the Attorney General has advised GSA that the certificates are general obligations of the United States, backed by its full faith and credit.

To date GSA has sold three issues of participation certificates amounting to $522.5 million. The first, amounting to $196.5 million, was sold in increments from October 30 through November 3, 1972, and had interest rates varying from 7.125 to 7.4 percent; the second, amounting to $200 million, was sold on December 13, 1972, and had an interest rate of 7.15 percent; and the third, amounting to $126 million, was sold on March 14, 1973, and had an interest rate of 7.5 percent. (See enclosure.) The issues were sold at a total discount of about $4.6 million, which resulted in an overall effective interest rate of 7.25 percent on the first and second issues and 7.90 percent on the third issue.

Of the net proceeds of $517.91 million from the sale of the three issues, $800,000 has been used to purchase a building site and the balance of $517.11 million has been deposited in the general account of the Treasurer of the United States in the Federal Reserve Bank of New York. Most of these proceeds, while awaiting use in fulfilling construction requirements, have been invested by GSA in special issues (short-term notes) of the Treasury and have annual interest rates of from 4.8 to 6.9 percent. The interest earned on these funds is less than the rate GSA is required to pay on the participation certificates. At March 31, 1973, $511.36 million remained with the Treasury after disbursements of $5.75 million had been made primarily to contractors.

On the basis of market conditions at the time GSA participation certificates were issued, we estimated that the Treasury could have issued long-term Government bonds for about 3/4 of 1 percent less than the effective interest rate for the certificates. The additional interest costs associated with the $522.5 million of participation certificates is about $3.92 million a year, which amounts to $117.6 million for the 30-year term.

Because of the potential interest savings that would be possible by financing the GSA purchase contract program through Treasury borrowings, our February 27, 1973, letter to the

Acting Administrator of General Services suggested that GSA consider seeking a change in the law that would provide for the remaining financing by direct Treasury borrowings.

By letter dated March 13, 1973, GSA concurred with us that direct Treasury borrowings would be more economical than participation certificates or the variety of financing methods used by certain other Federal agencies. GSA stated that, to remedy the problem, the Administration has sponsored the proposed Federal Financing Bank Act of 1973. GSA stated that enactment of this proposed legislation (S. 925, Feb. 20, 1973) is intended to accomplish the objectives we proposed for GSA; it will accomplish the same objective for other Federal agencies as well.

The legislation to establish a Federal Financing Bank was first introduced in the Senate as Senate bill 3001 on December 13, 1971, and was passed on October 16, 1972. An amended version was reported on favorably by the Committee on Ways and Means, House of Representatives, but it was not taken up on the House floor before the 92d Congress adjourned.

Senate bill 925, introduced in the Senate on February 20, 1973, is similar to Senate bill 3001. Its purpose is to (1) assure coordination of the financing needs of Federal and federally assisted borrowing programs with overall economic and fiscal policies of the Government, (2) reduce the costs of Federal and federally assisted borrowings from the public, and (3) assure that such borrowings are financed in a manner least disruptive to the private financial markets and institutions.

A Federal Financing Bank would be established to carry out the legislation. The bank would be subject to the general supervision and direction of the Secretary of the Treasury. Federal agencies would be required to submit their financing plans for approval to the Secretary of the Treasury, who would be the Chairman of the bank's Board of Directors.

Since we brought this matter to its attention, GSA has sold $126 million of participation certificates and is scheduled to sell two more issues to finance the remaining 26 projects. The first of these 2 issues, covering 23 projects, is scheduled for July 1973; the other, covering 3 projects, is scheduled for March 1974.

We do not believe that enacting the proposed legislation would result in any sizable savings for GSA because it would have sold most, if not all, of its participation certificates before the proposed legislation could be enacted and implemented.

GSA has not estimated the financing required for the two scheduled issues. According to GSA records the estimated construction costs are $294 million for the 23 projects and $67 million for the 3 projects. If GSA follows its practice, it will obtain financing in excess of construction costs of $361 million to cover ($294 million plus $67 million) (1) incurred interest expense on the participation certificates and real estate taxes during the construction period, (2) cost escalation, and (3) certain other costs.

Two features of the proposed legislation may affect interest savings on any GSA financing remaining at the time of passage. First, according to Senate Report 92-853 on Senate bill 3001, dated June 12, 1972, the proposed legislation would not require the bank to lend to any agency nor require any agency to borrow from the bank. Therefore, even if the legislation is passed, GSA could, with the approval of the Secretary of the Treasury, continue to sell its participation certificates to the public. Secondly, interest on GSA's certificates and Treasury obligations is not subject to State and local income taxes; under Senate bill 925, interest on the proposed bank securities would be. This would tend to increase the interest rate on the bank's securities.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Enclosure

SCHEDULE OF FINANCING BY GSA THROUGH SALE OF
PARTICIPATION CERTIFICATES AS OF MARCH 31, 1973

	Principal amount	Sales price expressed as a percentage of principal amount	Sales price (net proceeds)	Discount amount	Annual interest rate (percent)	Annual interest cost
First issue, 10-30-72 to 11-3-72:						
Series A	$ 65,300,000	99.411	$ 64,915,383	$ 384,617	7.4	$ 4,832,200
Series B	48,800,000	98.51	48,072,880	727,120	7.3	3,562,400
Series C	25,100,000	98.93999	24,833,938	266,062	7.25	1,819,750
Series D	22,700,000	98.601	22,382,427	317,573	7.2	1,634,400
Series E	34,600,000	98.8599	34,205,525	394,475	7.125	2,465,250
	196,500,000		194,410,153	2,089,847		14,314,000
Second issue, 10-13-72:						
Series F	200,000,000	99.5299	199,059,800	940,200	7.15	14,300,000
Third issue, 3-14-73:						
Series G	126,000,000	98.761	124,438,860	1,561,140	7.50	9,450,000
Total	$522,500,000		$517,908,813	$4,591,187		$38,064,000