

DOCUMENT RESUME

04935 - [B0195085] (Restricted)

Space Rental Rates Charged the Department of Agriculture by the General Services Administration. LCD-78-305; B-95136. January 18, 1978. 6 pp.

Report to Rep. George H. Mahon, Chairman, House Committee on Appropriations; Sen. Warren G. Magnuson, Acting Chairman, Senate Committee on Appropriations; by Elmer B. Staats, Comptroller General.

Issue Area: Facilities and Material Management (700).

Contact: Logistics and Communications Div.

Budget Function: General Government: General Property and Records Management (804); General Government: Other General Government (806).

Organization Concerned: General Services Administration; Department of Agriculture.

Congressional Relevance: House Committee on Appropriations; Senate Committee on Appropriations. Rep. George H. Mahon; Sen. Warren G. Magnuson.

Authority: Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 490 (j)). H. Rept. 95-520.

The Federal Property and Administrative Services Act of 1949 directs the General Services Administration (GSA) to charge agencies rent at rates approximating commercial charges for comparable facilities but does not contain criteria for computing these rates. To determine the approximate commercial rates for buildings for fiscal years (FYs) 1975, 1976, and 1977, GSA used composite area rental rates adjusted by quality ratings assigned to each building. In response to a previous GAO report, GSA adopted a new method for determining rates in which each space is independently appraised and a fair annual rate, comparable to commercial rates, is established. Each year, one-third of GSA-controlled buildings are to be reappraised and rental rates maintained for 3 years. GSA officials believed that the Department of Agriculture's (USDA) rental payments for FYs 1975, 1976, and 1977 were too low and did not accurately reflect comparable commercial rates. GSA's estimates for USDA's rental charges for FYs 1978 and 1979 represent an increase of 13.6% over FY 1977 charges, and FY 1979 estimates represent a 7.7% increase in rental charges and a 2.9% increase in space over FY 1978. Because only about one-third of buildings received new rates for FY 1979, most of USDA's rental rates remained the same for FY 1979. Of 195 space assignments examined, 61 had rates different from 1978 rates with an average increase of about 3.5%. Previous problems involving inaccurate billings were eliminated. (HTW)



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

B-95136

JAN 18 1978

The Honorable Warren G. Magnuson
Acting Chairman, Committee on Appropriations
United States Senate

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

Dear Mr. Chairman:

This is our report on the space rental rates charged the Department of Agriculture by the General Services Administration, as requested by House Report 95-520, July 21, 1977, accompanying the Agriculture and Related Agencies Appropriation Bill, 1978. Our review was primarily concerned with (1) General Services' annual rental charges to the Department of Agriculture, exclusive of the Forest Service; (2) the reasonableness of Agriculture's rental payments relative to General Services' charges to other Federal agencies and the cost of commercial space of a comparable nature; and (3) the accuracy of General Services' billings to Agriculture.

GENERAL SERVICES' RENTAL RATES

Section 210(j) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. sec. 490(j) (Supp. V, 1975), directs General Services to charge agencies, among other things, rent for space they occupy. The rent proceeds are deposited in the Federal Buildings Fund. The law states that agencies' rental rates, which were to become effective beginning in fiscal year 1975, "* * * shall approximate commercial charges for comparable space and services * * *." The law, however, does not contain any criteria or guidance for computing comparable commercial rates.

To determine the approximate commercial rates for individual buildings for fiscal years 1975, 1976, and 1977, General Services used composite area rental rates adjusted by quality ratings assigned to each occupied building. General Services computed the composite area rental rates for the various classifications of space--office, storage, special, and parking--based on market surveys in cities containing 75 percent of all General Services-controlled space.

LCD-78-305
(945146)

The numerical quality ratings for each building were based on various factors, including the soundness of the structure, heating, lighting, and location. The composite rates adjusted by the quality rates provided square foot costs for rental space in the major Federal space areas.

Each General Services regional office developed a single set of rates for space in metropolitan areas which had limited Federal space (cities which were not among those accounting for 75 percent of all General Services space). The rates developed were supposed to reflect the relationships among market survey rates, quality ratings, and the percentage of General Services-controlled space in the city.

General Services' space rental rates for rural areas were based on its study of the relationship between space in limited Federal space areas and small towns. The nationwide average cost per occupiable square foot of space in rural areas was calculated to be 25 percent lower than the cost in limited Federal space areas.

For all 3 fiscal years, General Services added to the rental rates a \$.23 per square foot charge for guard and protection services for office space and a \$.06 per square foot charge for protection services for warehouse space. For fiscal years 1975 and 1976, inflation factors specific to the geographic locations of the space were added to the rates.

General Services' original 1975 rates were reduced 13 percent by the Office of Management and Budget. Additionally, fiscal years 1975 and 1976 rental payments by the Agencies to General Services were reduced 10 percent by the Congress. For fiscal year 1977, an annual 6-percent inflation factor was added to 1976 rates.

In a previous report (LCD-75-325, Mar. 10, 1975), we noted that the methods being used by General Services to establish rental rates were deficient, primarily because the methods did not give adequate consideration to the role that the specific location of a building played in determining rental rates on the commercial market.

For fiscal year 1978, General Services adopted a new method for determining space rental rates. Under the new method, each space is independently appraised, and a fair

annual rental rate, comparable to commercial rental rates, is established. To verify the comparability of commercial rates for appraised General Services space, appraisers must record descriptive details about three parcels of commercial space which, in their professional judgment, are comparable to the Federal space being examined. In the cases of rural or smalltown space assignments, the comparable commercial space may be up to 50 miles away but cannot be in a metropolitan area.

Rental appraisals for fiscal year 1978 rates were conducted between December 1975 and May 1976. To update the appraisals, a 9.3-percent inflation factor was added to cover the period from May 1976 to October 1, 1977. Additionally, a \$.28 per square foot charge for office space and a \$.09 per square foot charge for warehouse space was added to pay for guard and security services.

Each year, one-third of the General Services-controlled buildings are to be reappraised. Once appraised, a building maintains its rental rate for 3 years.

For those buildings reappraised between October 1976 and January 1977, to prepare space rental rates for fiscal year 1979, a 12.6-percent inflation factor was added to update the appraised rates to reflect projected market conditions through fiscal year 1981. Space rental rates for 1979 also include a \$.28 per square foot protection charge for office space and a \$.07 per square foot protection charge for warehouse space.

AGRICULTURE'S RENTAL PAYMENTS

For fiscal years 1975, 1976, and 1977, Agriculture's rental payments to General Services, exclusive of the Forest Service, were as follows:

	Fiscal year <u>1975</u>	Fiscal year <u>1976</u>	Fiscal year <u>1977</u>
Payment	\$40,818,246	\$39,365,577	\$42,682,502
Space (square feet)	9,598,655	9,662,489	10,693,554

Because of the methods used to calculate rates (market surveys), the time pressures under which the surveys were made, and the reductions in the rates resulting from actions by the Office of Management and Budget and the Congress, General Services officials believe that the rental rates used during these 3 years did not accurately reflect comparable commercial rates. The officials also believe that the rates General Services charged for space in rural areas were too low.

To assist Federal agencies in budgeting for space rental charges, General Services provides its customer agencies, in April of each year, an estimate of space rental charges for the fiscal year beginning 18 months in the future. General Services' estimates are based on the agencies' projections of the amount and type of space they will be occupying at the end of the pertinent fiscal year.

Because the method of calculating space rental rates changed from market surveys to appraisals of individual buildings, comparisons between the 1977 and 1978 rates can only be made in broad terms. However, General Services officials believe that the new appraisal method results in rates that are more comparable to commercial rental rates. Most appraisals for fiscal year 1978 were performed by independent, professional appraisers. Also, the fiscal year 1978 rates were not subjected to any Office of Management and Budget or congressionally directed reductions.

Based on Agriculture's projected space requirements, General Services estimated Agriculture's rental charges, exclusive of the Forest Service, for fiscal years 1978 and 1979 as follows:

	Fiscal year <u>1978</u>	Fiscal year <u>1979</u>
Estimated rental charges	\$48,472,181	\$52,225,254
Estimated space (square feet)	9,726,158	10,004,809

The estimated rental charges for fiscal year 1978 represent an increase of 13.6 percent over the fiscal year 1977 charges. The fiscal year 1979 estimates represent a 7.7-percent increase in rental charges and a 2.9-percent increase in square feet of space over fiscal year 1978

estimated totals. The increase in the fiscal year 1979 rental charges reflects the additional space Agriculture will occupy, plus the inflation factor for those buildings reappraised.

Because only about one-third of General Services-controlled buildings received new rates for fiscal year 1979, most of the rental rates for Agriculture's approximately 3,000 space assignments remained the same for fiscal year 1979.

In this connection, we examined the rates for 195 individual Agriculture space assignments for fiscal year 1979. Sixty-one of the rates were different from 1978 rates; the average increase was approximately 3.5 percent.

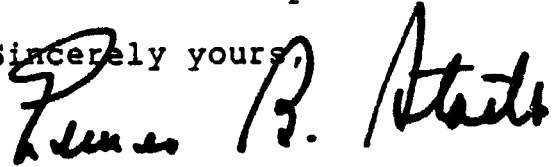
For example, for fiscal year 1978, the Department of Agriculture's Statistical Reporting Service in Little Rock, Arkansas, will pay General Services \$6.29 per square foot for office space. The rate for fiscal year 1979 was \$6.47 (a 2.9-percent increase). The Extension Service office in Eldora, Iowa, will pay \$2.47 per square foot for office space in 1978, and \$2.69 per square foot for the same space in 1979 (an increase of 8.9 percent). These increases primarily reflect inflation in commercial rental rates.

We also reviewed the appraisals and related documents for Agriculture space assignments in the two General Services regions cited by Agriculture officials as being the major problem areas with respect to rates and billings in the past. Our review showed that, under the new appraisal method, the previous problems involving improper and inaccurate billings have been eliminated. The appraisals were done according to General Services requirements to determine comparable commercial rates, Agriculture was being billed at the same rates as the other Federal agencies occupying similar space, and the billings, themselves, were accurate.

B-95136

This report is also being sent today to the Chairman, Committee on Appropriations, House of Representatives. As agreed, this report will be made available to other interested parties 10 days from the date of the report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Atchafalaya". The signature is written in a cursive style with a large initial "J" and "A".

Comptroller General
of the United States