United States General Accounting Office

GAO

Report to Congressional Requesters

October 1989

BUILDING PURCHASES

GSA's Program Is Successful but Better Policies and Procedures Are Needed

GAO United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-234459

October 31, 1989

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. Chaffee
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) Building Purchase Program as part of a larger review of GSA's efforts to mitigate the budgetary impact of lease cost growth. This report presents the results of our review of that program.

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

If you have any questions or would like further information, please contact me on 275-8676. The major contributors to this report are listed in appendix IX.

L. Nye Stevens

L. Nye Stevens
Director, Government
Business Operations Issues

Executive Summary

Purpose

The Chairmen and Ranking Minority Members of the Senate Subcommittee on Water Resources, Transportation and Infrastructure, Committee on Environment and Public Works, and the Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations, asked GAO to examine the General Services Administration's (GSA) efforts to improve the ratio of government-owned to leased space as a means for lessening the budgetary impact of lease cost growth. This report describes GSA's management of one such effort, the Building Purchase Program.

Background

In 1982, GSA's concern about increasing lease costs led it to obtain congressional authorization to initiate an Opportunity Purchase Program, now called the Building Purchase Program, to quickly purchase office buildings where the federal government had a long-term need for office space. As of May 1988, GSA had made 13 purchases providing approximately 3.5 million square feet of space for a total cost of about $305 million. GAO reviewed 12 purchases, of which 10 involved commercial office buildings and 2 involved special purpose building complexes. (See pp. 8 through 11.)

Results in Brief

GSA has demonstrated that the Building Purchase Program can be an effective and economical means for acquiring modern office buildings in cities with a long-term federal presence. Most of the commercial office buildings GSA purchased will provide agencies with quality space and GSA with minimum life cycle operating costs. GSA should continue to seek similar building purchase opportunities.

GSA encountered some problems in implementing the program partly because its order governing the program is deficient. To help prevent costly errors in making purchase decisions and to facilitate the occupancy of finished buildings in a timely manner, GSA needs to revise its order to prohibit arrangements for construction services which circumvent competition requirements. The policy and procedures improvements recommended in this report should be considered for any additional buildings GSA acquires under the program.

Principal Findings

Most Purchased Buildings Provide Quality Space and Good Value

Seven of the 10 commercial office buildings GSA purchased are quality, modern buildings for which GSA paid about $167 million, or about 11 percent less than their total appraised values of $187 million. The $203 million total acquisition costs for the 10 buildings, including construction to prepare them for occupancy, was less than GSA estimated it would pay to lease or construct equivalent space. All were purchased in cities where the federal government is expected to have a significant long-term presence. (See pp. 14 through 18.)

Three Purchases Did Not Meet GSA's Standards

GSA purchased three commercial office buildings that did not meet GSA's standards because GSA regional officials ignored GSA building purchase policy. Despite the concerns raised by two GSA oversight offices, two buildings were bought for about $2 million more than their independently appraised values; one purchase also failed to meet other GSA economic requirements. A third purchase has serious structural defects which violate the purchase contract and GSA policy and which will be costly to correct. (See pp. 18 through 24.)

GSA's Program Needs Improvement

GSA's order guiding the Building Management Purchase Program needs to be revised to provide comprehensive guidance for arranging for construction services in the purchase of buildings, preparing them for occupancy, and making them available for occupancy without unnecessary delay. (See pp. 26 through 36.)

Guidance in GSA's order allowing the negotiation in a building purchase on construction to prepare the building for occupancy is deficient in several respects. The deficiencies have led not only to costly contracting errors but also to the circumvention of competition requirements. For three purchases where the buildings' sellers would not do the needed construction, GSA used third parties in the purchase contracts at additional cost and improperly avoided the competition requirements of the Competition in Contracting Act of 1984 and the Federal Acquisition Regulation. (See pp. 29 through 30.)

GSA policy provides no guidance on how to make building purchases which include options to lease or purchase additional buildings at the same site. For example, in one such transaction a lack of coordination led to unanticipated expenses because of delays in acquiring construction approvals. In another transaction, unexpected expenses were similarly incurred when the agency made changes in its plan to occupy the buildings. (See pp. 31 through 33.)

GSA's order governing the program does not define the coordination and pre-occupancy planning GSA and the agencies should follow, which has led to delayed occupancy in half the purchases. These delays resulted in additional interim housing costs of at least $1.9 million. (See pp. 33 through 36.)

Older Buildings Raise Special Problems

GSA does not have quality criteria for purchases of special purpose space, as it does for purchases of commercial office buildings. GSA made two purchases of 19- to 24-year-old buildings that house large-scale computer operations. These buildings have problems primarily because they are old. GSA needs to establish criteria defining acceptable quality for these types of purchases. (See pp. 41 through 46.)

Recommendations

GAO recommends that the Administrator of the General Services Administration

- continue to seek opportunities to purchase quality, modern office buildings in cities with a long-term federal presence, provided the economic benefits of ownership exceed those of leasing or constructing equivalent space. (See p. 24.)
- in making building purchase decisions, ensure that (1) economic analyses of building purchases include all ownership costs, (2) prices do not exceed appraised values by amounts greater than policy allows, and (3) analyses of purchases which include options to lease or purchase additional buildings evaluate the increased risks of such acquisitions. (See p. 25.)
- develop specific guidance setting forth the circumstances under which construction services may be negotiated as part of a building purchase. (See p. 38.)
- establish criteria defining acceptable quality for purchases of special purpose space. (See p. 46.)

This report contains other recommendations on pages 25 and 38.

Agency Comments

GSA generally agreed with the findings and conclusions contained in this report. GSA said it was in complete agreement with GAO's conclusion that it should continue to seek quality building purchases and acknowledged that policies and procedures governing the program must be strengthened. GSA said it would revise the Building Purchase Program order and that in the future it would, as we recommended, seek full competition for alterations needed for purchased buildings when they could not be provided by the buildings' owners. (See pp. 65 and 66.)

GSA had other comments that are incorporated in the body of this report on pages 19-20, 23, 25, 46, and 55.

Contents

Glossary

Tables

Abbreviations

CICA	Competition In Contracting Act
DVA	Department of Veterans Affairs
FAR	Federal Acquisition Regulation
GSA	General Services Administration
IG	Inspector General
IRS	Internal Revenue Service
NCR	National Capital Region
NOAA	National Oceanic and Atmospheric Administration
NRC	Nuclear Regulatory Commission
OFP	Office of Facility Planning
OMB	Office of Management and Budget
PBS	Public Buildings Service

Introduction

In fiscal year 1983, Congress gave the General Services Administration (GSA) approval to initiate an Opportunity Purchase Program to purchase commercial office buildings. Under the program GSA now calls the Building Purchase Program, GSA purchased 13 office buildings nationwide that have added a total of about 3.5 million square feet of government-owned space to GSA's inventory at a cost of about $305 million. At the request of the Chairmen and ranking minority members of the Senate Subcommittee on Water Resources, Transportation and Infrastructure, Committee on Environment and Public Works, and the Senate Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations, we examined GSA's management of the program and 12 of the 13 building purchases.

GSA Concern About Lease Cost Growth Led to Building Purchase Program

GSA is the federal government's landlord, providing office space for most government agencies. Through its Public Buildings Service (PBS), GSA provides office space in buildings that it owns or leases. In fiscal year 1988, GSA controlled about 229 million square feet of space across the country. Of that, 1,702 government-owned buildings provided about 139 million square feet, or about 61 percent of the space inventory. The remaining 39 percent of the space was provided by about 4,900 leases in nearly 5,000 buildings, totaling about 90 million square feet. GSA's lease payments were about $1 billion in fiscal year 1988.

GSA has long been concerned about the increasing costs of leased space for the federal government. In 1982, when it proposed creating a program to purchase existing office buildings, GSA predicted its lease costs would reach about $1 billion by 1985. During budget hearings in 1986, GSA estimated that leasing costs would increase to almost $2 billion by the mid-1990s. According to GSA officials, lease costs are increasing because long-term leases entered into in the 1970s at favorable rates are now expiring. New leases will have to be obtained at current market rates, which are higher than many of the expiring leases.[1] Also, according to GSA, in addition to long-term lease expirations, lease costs are increasing because GSA has been forced to lease space to meet agencies' expansion requirements.

[1] Our report, GSA's Projection of Lease Costs in the 1990s (GAO/GGD-89-55, Apr. 19, 1989), showed that, while lease costs have grown, we do not expect them to grow as high as has been publicly predicted by GSA. We believe they may increase to about $1.6 billion by the mid-1990s; however, problems with GSA's data base render even this projection unreliable.

Reducing lease costs is a major GSA objective. Besides the Building Purchase Program, GSA has developed other strategies to reduce lease costs, including the following:

- Improving space utilization by reducing the standard amount of space provided each federal employee to an average of 135 square feet.
- Recapturing for occupancy vacant or under-utilized space in government-owned buildings.
- Consolidating agencies occupying scattered leased space into fewer leased or owned buildings.
- Relocating agencies from downtown locations to leased or owned buildings in less expensive suburban locations.
- Creating new financing methods to construct buildings that the government will initially lease but eventually own.

GSA's concern about increasing lease costs led it in 1982 to propose a program to purchase buildings as opportunities arose in cities where the federal government had a long-term need for space. During budget hearings that year, GSA officials justified creating an Opportunity Purchase Program to allow GSA to quickly acquire property available on the market and to purchase buildings in which the government was a lessee.

GSA believes that, in certain cases, purchasing an existing building is cheaper than constructing a building providing equivalent space. GSA supports this belief by saying

- Constructing a building takes from 4 to 6 years, whereas a purchased building is available for occupancy much sooner, resulting in savings in lease payments.
- Design standards for federally constructed buildings and mandated requirements such as the Davis-Bacon Act[2] and other laws are often not required for privately constructed commercial buildings, and prices GSA pays for such buildings are less than direct construction costs would be.
- By purchasing buildings, GSA avoids cost overruns that often occur in multi-year construction contracts due to change orders, changes in agency needs and contractor claims.

Congress established the program by authorizing in fiscal year 1983 that $14.1 million in the Federal Buildings Fund be set aside for building

[2]According to the Commission on Government Procurement, the Davis-Bacon Act (40 U.S.C. 276a - 276a-5) is the most important law affecting federal procurement of construction. It requires contractors doing federal construction in excess of $2000 to pay wages that prevail in the area where the construction is carried out.

purchases. In February 1983 GSA purchased the first building under the program—Griffin Square in Dallas, Texas, after receiving prospectus approval for the purchase from the House and Senate Public Works committees.

From fiscal year 1983 through fiscal year 1988, except for fiscal year 1986 when GSA requested no funds, Congress, without first requiring prospectus approval, authorized that a total of about $309 million from the Federal Buildings Fund be spent for the Building Purchase Program.[3] GSA requested no money for the program for fiscal years 1989 and 1990; GSA officials say about $42 million remain in the purchase account and it is evaluating additional purchase proposals.

Congressional Prospectus Approval Not Required for Building Purchases

GSA's experience in purchasing its first building led it to conclude that obtaining prospectus approval for purchases would make the program unworkable. In seeking funds for the second year of the program, GSA said owners would typically be unwilling or unable to hold an offer open on a building for the length of time it took Congress to approve the prospectus and funding for a specific purchase. GSA urged Congress to make the process more flexible so that it could act more quickly when favorable purchase opportunities arose. In fiscal year 1984, Congress authorized $20 million for the program's second year without requiring GSA to obtain prospectus approval to allow GSA to purchase buildings as they became available.[4]

The 13 buildings purchased under the program are listed in the following table in chronological order.

[3]In fiscal year 1984 GSA reprogrammed $39.8 million and added that to funds available for the Building Purchase Program.

[4]See the glossary for a description of the prospectus approval process.

Table 1.1: Buildings Purchased Under the Program

Building and Location	Date purchased	Price in millions	Occupiable square feet
Griffin Square, Dallas, TX	Feb 83	$7.2	160,000
Judiciary Square, Washington, DC	Jun 84	$14.1	83,000
Austin IRS/DVA Center, Austin, TX	Apr 85	$27.2	599,000
Brickell Plaza, Miami, FL	Sept 86	$13.9	137,000
One White Flint Plaza, Rockville, MD	Nov 86	$47.5	270,000
IRS Service Center, Chamblee, GA	Dec 86	$13.2	319,000
Silver Spring Metro Center, Silver Spring, MD	Feb 87	$21.9	123,000
Concorde Tower, Houston, TX	Aug 87	$26.4	334,000
Alliance Tower, Houston, TX	Sept 87	$13.9	173,000
Collonade Center, Denver, CO	Sept 87	$16.0	168,000
Bonneville Tower, Las Vegas, NV	Oct 87	$9.9	62,000
Peachtree Summit, Atlanta, GA	Apr 88	$68.0	790,000
Centre V Building, Dallas, TX	May 88	$25.5	290,000
13 purchases		$304.7	3.5 million

Objectives, Scope, and Methodology

At the request of the ranking minority member of the Senate Governmental Affairs Committee, we reported in July 1987 on a number of structural and financial concerns relating to one of the buildings GSA purchased under the Building Purchase Program.[5] Following that report and related testimony, the Chairmen and ranking minority members of the Senate Subcommittee on Water Resources, Transportation and Infrastructure, Committee on Environment and Public Works, and the Senate Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations, requested that we review GSA's efforts to mitigate the budgetary impact of lease cost growth. Two of their questions dealt specifically with GSA's Building Purchase Program, and our objectives in this review were to answer them:

- Do the policies, procedures, and practices of the Building Purchase Program provide adequate direction, control, and safeguards for determining where program funds can most efficiently and effectively be used?
- Does GSA's Building Purchase Program include controls to ensure that buildings considered for purchase meet the needs of federal agencies for quality space and GSA for minimum life cycle operating costs?

[5] Purchase and Options to Expand the Silver Spring Metro Center (GAO/GGD-87-101BR, July 21, 1987).

During our review of the Building Purchase Program, we examined 12 of the 13 purchases GSA has made. The most recent purchase, the Centre V Building in Dallas, Texas, occurred after we had completed our field work and is not included in our review.

We reviewed GSA's policies and procedures for managing the program at both GSA headquarters and the four regional offices that have purchased buildings by interviewing GSA officials and examining GSA and governmentwide policy guidance. We reviewed the processes and procedures GSA used to identify each building purchase opportunity, determined acquisition costs, and developed a case history of each building purchase included in our review by interviewing GSA officials responsible for the purchases and officials of agencies that occupied the buildings, and by reviewing purchase files, negotiating records, and contract documents related to the purchases.

To determine how well agencies' needs are or will be satisfied by the space, we toured 11 of the 12 buildings included in our review and interviewed officials of selected agencies housed in the 11 buildings or scheduled to move into the buildings when they are ready for occupancy. GSA's criteria for assessing building quality are not well defined. We therefore supplemented GSA's criteria with our own judgmental criteria, as follows:[6]

- Does the building provide sufficient space for the efficient organization of the agency functions it houses?
- Does the building provide a pleasant working environment for the employees housed in it?
- Are lunchtime dining facilities available within the building or in the nearby community?
- What transportation means are used to get to the building by employees assigned there, how convenient are these means, and does the building provide support for the transportation means used (such as parking arrangements if personal vehicles are the principal means of transportation to the building)?
- Is the building location a logical one to support the function of the agencies assigned there?
- How well does the building support public access to the services of agencies that regularly deal with the public?

[6]In comments on a draft of this report, GSA said that building quality concerns are an overriding issue in all of GSA's space acquisition actions. GSA agreed that criteria are not explicitly defined in its Building Purchase Program order but stated that it uses the same criteria as we developed to assess building quality.

We did not tour the Peachtree Summit building in Atlanta or interview officials of agencies scheduled to occupy the building because the Atlanta building was purchased too late in our review for us to do this.

We reviewed the present value cost analyses GSA prepared to determine whether purchases met the economic criteria it requires to support purchase decisions.[7] In reviewing the analyses, we accepted GSA's estimates of its construction costs when a construction alternative was included in the analysis. However, for all alternatives considered in each purchase we determined whether other elements of the present value analyses accurately reflected known costs or reasonably presented estimated costs, and whether GSA included all costs that should have been considered.

We obtained the assistance of a consultant, the president of Real Estate Research Corporation, Chicago, Illinois, because we believed GSA's decision to purchase a building in Miami, Florida, might not have been supported by the appraisals used in arriving at the purchase decision and we needed the services of an expert appraiser to help us evaluate them. Our consultant, a former president of the National Society of Real Estate Appraisers, was selected because GSA had recommended him as one of the best appraisers available in the country when we sought GSA's advice about selecting an appraisal consultant needed for another GAO review in 1988.

Our review was done during the period from September 1987 through December 1988 using generally accepted government auditing standards.

We gave a draft of this report to GSA to obtain their comments. GSA's cover letter is shown at appendix VIII. (See p. 65.) We did not include GSA's detailed comments; however, we have summarized those comments and they are addressed throughout the report where appropriate.

[7] Present value cost analysis compares the costs that will accrue over a 30-year period of three alternatives available to GSA to meet federal space needs: purchase, lease, and construction. GSA is required to make economic analyses comparing lease and purchase by Office of Management and Budget Circular A-104, Evaluating Leases of Capital Assets.

Most Purchased Office Buildings Provide Quality Space and Good Value

The request to examine GSA's Building Purchase Program asked that we determine if (1) GSA's policies and procedures ensure that program funds are used most effectively and (2) GSA ensures purchased buildings meet federal agencies' needs for quality space and GSA's needs for minimum life cycle operating costs. We concluded that for most of the commercial office buildings GSA has purchased, the answer to both questions is yes.

Ten of the 12 buildings acquired under the Building Purchase Program which we examined were commercial office buildings. Seven of those 10 buildings, in our opinion, provide the government dignified locations to carry out public business and pleasant working environments for federal employees. They are handsome buildings which were purchased for a total of about $167 million, or about 11 percent less than their total appraised values of $187 million. Furthermore, their total acquisition costs of $203 million, including construction needed to prepare them for occupancy, were less than what GSA believes it would have paid to construct or lease equivalent space.[1]

However, 3 of the 10 commercial office building purchases do not meet the standards of quality or value represented by the other 7 office buildings. Two purchases were obtained at costs which exceed GSA's threshold for acceptable purchases. The third purchase has structural problems and the cost of correcting these problems may cause total acquisition costs to exceed GSA's economic criteria for purchasing a building.

We examined two other purchases of special purpose buildings that were different from the 11 commercial office building purchases. It is not clear that these purchases met the concerns of the Senate committees which requested our review that purchased buildings provide quality space with minimum life cycle costs. Because of the unique nature of these purchases, they are described separately in chapter 4.

GSA's Criteria Defining Buildings Acceptable for Purchase

GSA's policies and procedures governing the program are defined in GSA Order 1600.8, Building Purchase Program, dated September 19, 1984. The order establishes criteria for identifying communities in which GSA should seek buildings to purchase and the types of buildings which are acceptable for purchase. The criteria have been supplemented by other guidance in the form of memoranda and planning and budget documents

[1] The Centre V building purchased in Dallas, but not included in our review, is also a commercial office building.

issued since the order was published.[2] According to these documents, buildings suitable for purchase should meet the following criteria:

- Quality, state-of-the-art, "class A" office buildings,[3]
- Located in communities in which the government expects to maintain a long-term presence and in which the government's ratio of owned to leased space is less than 80:20,
- Available as a result of distress sales—sales by owners under pressure to sell for some reason—or are buildings in which the government is the sole or principal lessee,
- Not more than 10- to 15-years-old and have a continuing useful life of 30 years,
- Priced within 110 percent of appraised value,
- Less expensive by at least 20 percent than leasing and no more expensive than constructing an equivalent building,[4] and
- Appropriate for consolidating agencies currently located in expensive leased space.

Because GSA officials believe purchasing an office building is generally less expensive than constructing one, they have declared that the Building Purchase Program is the preferred method for acquiring general purpose office space.[5] They state that, from the moment a decision is made to acquire new office space, purchased buildings become available for occupancy more quickly than would a federally constructed building providing an equivalent amount of space. The lease costs avoided are therefore greater for a purchased building than a federally constructed building. GSA officials believe federal construction is preferred only for acquiring special purpose space, such as courthouses and border stations or in situations where buildings are needed that are larger than can be purchased on the market. For example, GSA is constructing a federal office building in Oakland, California, that will have over 1 million square feet of space. Another building, the International Cultural and

[2]These criteria have evolved with the Building Purchase Program; not all applied when some of the buildings were purchased. For example, the first two buildings were purchased before the order was published.

[3]"Quality," "class A," and "state-of-the-art" are not well defined in GSA's Building Purchase Program order or any memoranda about the program that we reviewed.

[4]Based on a comparison of the present value of the estimated costs of the lease, purchase and construction alternatives over a 30-year period.

[5]In comments on a draft of this report, GSA said that federal construction of general purpose office space in some cases may still be the preferred alternative. We agree that GSA should prefer construction if GSA's economic analyses showed that construction would be cheaper than purchasing or leasing needed space.

Trade Center, to be built in Washington, DC, will be second only to the Pentagon in amount of occupiable space.

Most Purchases Met All Criteria; All Purchases Met Some Criteria

GSA purchased three commercial office buildings in the Washington, DC area; two each in Dallas[6] and Houston, Texas; and one each in Denver, Colorado; Miami, Florida; Atlanta, Georgia; and Las Vegas, Nevada. All are communities with a large number of federal agencies and employees and in which GSA expects the federal government will have a continuing presence. All the communities had a ratio of government-owned to government-leased space that was less than the 80:20 ratio that is GSA's goal; while the purchases improved the ratio in those communities, none added sufficient space to achieve the goal. Seven of the 10 commercial office building purchases we examined met GSA's criteria for economic benefits. According to GSA, these buildings met its criteria for quality office space. The seven buildings also met our supplemental criteria for quality office space.

Economic Criteria Met by Eight Office Building Purchases

Eight of the 10 commercial office buildings purchased met GSA's economic criteria for justifying purchase decisions based on our analysis of GSA's supporting documentation. GSA policy requires that a building's purchase price be no greater than 110 percent of its appraised value as determined by an independent real estate appraisal, and GSA attempts to negotiate a price that is below appraised value. Also, GSA compared the 30-year present value of its estimated total acquisition costs for all the buildings with the costs of leasing similar buildings (see table 2), and for eight buildings with the estimated costs of construction.

[6] One of the Dallas buildings, also a commercial office building, was purchased too late in the review to allow its inclusion.

Table 2.1: Comparison of 30-Year Present Value of Purchase and Lease Costs for Purchases Under the Building Purchase Program

Dollars in millions

Building	30-Year Present Value: Purchase cost	Lease cost	Net benefit (loss)	Purchase benefit
Judiciary Square, Washington, DC	$20.5	$19.5	($1.0)	−4.9%
Bonneville Tower, Las Vegas, NV	$15.9	$19.9	$4.0	25.2%
Brickell Plaza, Miami, FL	$28.8	$33.0	$4.2	14.6%
Griffin Square, Dallas, TX	$16.5	$21.9	$5.4	32.7%
IRS Center, Chamblee, CA	$39.1	$47.2	$8.1	20.7%
Collonade Center, Denver, CO	$30.8	$40.0	$9.2	29.9%
Alliance Tower, Houston, TX	$30.1	$41.1	$11.0	36.5%
One White Flint, Bethesda, MD	$62.5	$74.2	$11.7	23.4%[a]
Silver Spring Metro Center, Silver Spring, MD	$31.1	$45.4	$14.3	46.0%
Concorde Tower, Houston, TX	$53.3	$70.0	$16.7	31.3%
IRS/VA Center Austin, TX	$67.7	$87.1	$19.4	28.7%
Peachtree Summit, Atlanta, GA	$144.6	$208.5	$63.9	44.2%
Total	**$540.9**	**$707.8**	**$166.9**	**30.9%**

[a]Because GSA incurred additional interim housing costs due to delays in occupying the building, the benefit ultimately achieved was reduced to 18.7 percent. (See discussion on White Flint in ch. 3.)

Present value analysis of the alternatives available for providing the space is GSA's principal decisionmaking tool for deciding whether to purchase buildings. Under OMB Circular A-104, Evaluating Leases of Capital Assets (initially issued in June 1972 and revised effective June 1, 1986), GSA is required to base its decision to lease or purchase an asset by comparing the present value of each of the alternatives. In addition, under applicable GSA policy, purchases can only be justified if the present value analysis shows that purchase costs are 20 percent more favorable than lease costs and no more than equal to construction costs. The quality of these analyses depends on the validity of the data on the buildings being considered and the assumptions made about future real estate market conditions in those localities. For 7 of the 10 commercial office building purchases we reviewed, we believe GSA used valid data and assumptions.

Three of the 10 buildings, both of those in Houston and the Denver building, were purchased in depressed real estate markets for prices less than GSA would pay to lease or construct similar buildings or to purchase buildings from sellers who could afford to wait for higher offers. They are modern office buildings that provided an economic advantage favoring purchase over leasing by about 30 to 36 percent and construction by about 12 to 36 percent. GSA estimated that one building it purchased for about $12 million had cost about $27 million to construct.

Five more of the 10 commercial office buildings, those in Dallas, Atlanta, Las Vegas, Bethesda and Silver Spring, were purchased for prices that were less than appraised values and GSA obtained economic benefits that were more favorable than leasing or constructing equivalent space.

Two Purchases Did Not Meet GSA's Economic Criteria Needed to Justify Purchase

GSA officials did not follow the policies and procedures that guide the Building Purchase Program when they purchased buildings in Miami, Florida, and Washington, DC. Neither building met the economic criteria GSA established to justify the purchase of a building. GSA's purchase decisions were made despite internal analyses indicating the purchases were not economically justified. In both cases, GSA paid more for the buildings than their independently appraised values. In both cases, we found no evidence that once the decision was made to begin negotiations to purchase the buildings, senior officials considered not purchasing the buildings because the economic problems violated program policies and procedures.

Judiciary Square, Washington

In June 1984, GSA purchased Judiciary Square in Washington, DC, for a total acquisition cost of $14.1 million, despite internal warnings that the purchase was not a sound economic decision. We could find no documentation explaining this decision nor get an explanation other than that GSA's principal concern at the time was its need to increase amounts of government-owned space.[7]

About 2 months before the building was purchased, two oversight offices within GSA—the Office of Policy and Management Systems and the Office of Acquisition Management and Contract Clearance—objected that the purchase was not economically justified. They noted that the 30-year present value of leasing was estimated to be about $500,000 less expensive than the present value of purchasing, based on the $12.6 million purchase price. Furthermore, the Office of Acquisition Management and Contract Clearance noted that the $12.6 million purchase price did

[7]Judiciary Square was purchased before GSA required that the 30-year present value cost of a purchase be favored by 20 percent over that of a lease and at least equal to that of constructing equivalent space. However, present value analysis was done for all purchases because analysis comparing lease and purchase has been required by OMB Circular A-104, Evaluating Leases of Capital Assets, issued in June 1972.

not include the cost of constructing an additional fire escape stairwell nor did it include GSA's payment of District of Columbia transfer taxes.

GSA's National Capital Region (NCR), which negotiated the purchase, said there were no significant economic differences among the alternatives but cited other benefits such as reducing the region's leased inventory, vacating unsafe leased buildings, and improving space utilization rates. Subsequently, the Office of Acquisition Policy and Contract Clearance stated its objections were satisifed for the following two reasons:

- PBS established a policy that a purchase price within 110 percent of a building's appraised value was fair and reasonable, and Judiciary Square's $12.6 million price was 105 percent of its $12 million appraised value.
- NCR asserted that an additional stairwell was not required, which would have reduced the building's occupiable space and appraised value.

On June 7, 1984, NCR officials signed a contract to purchase Judiciary Square for $12.6 million, pay $126,000 in District of Columbia transfer taxes, and $718,000 to meet fire safety concerns in the building, for a sprinkler system and the additional stairwell which NCR had earlier asserted would not be needed. Following the purchase, GSA made $648,847 in amendments to the purchase contract to make additional modifications needed to prepare the building for occupancy. If these costs had been included to calculate total acquisition cost, as is now done for purchased buildings, the total cost would have been about $14.1 million.

We calculated the 30-year present value cost of the Judiciary Square purchase to be about $20.5 million, which was 4.7 percent, or about $1 million, more costly than the $19.5 million present value cost to lease equivalent space. GSA's present value analysis made at the time of the purchase showed the present value of the purchase to be about 2 percent, or about $500,000 more expensive, than the present value of a lease. Consequently, neither the total acquisition cost nor the purchase price met GSA's past standard, which only required a purchase to be less expensive than a lease, or its current standard requiring a 20-percent cost advantage for purchases.

GSA's Comments and Our Response

In comments on our analysis of the Judiciary Square purchase, GSA noted that present value cost analysis done pursuant to the requirements of OMB Circular A-104 is not a precise measure. GSA said it is a useful comparison of alternatives, but that, given the large number of assumptions that must be made, a difference of plus or minus 5 percent should not be considered significant. Therefore, both GSA's calculation indicating purchase to be 2 percent more expensive than leasing and our calculation indicating a 4.7 percent purchase disadvantage indicate a cost difference so small that neither supports either alternative.

GSA commented on only part of the evidence available to it at the time of purchase indicating its advantages and disadvantages. Another disadvantage was that the building's price exceeded appraised value by an amount greater than allowed by GSA's policy, if the costs of the additional fire escape stairwell, transfer taxes, and modifications subsequent to purchase are included in the purchase price. Furthermore, GSA had ample warning from internal control organizations that the purchase may not have been economically justified and that more careful scrutiny of the purchase was needed. The Judiciary Square purchase was only the second one GSA made and rules guiding the program had not yet been formulated. However, if GSA had assessed this purchase under current rules, it is uncertain that the purchase could have been justified.

Brickell Plaza, Miami

GSA paid $13.9 million to purchase Brickell Plaza in 1986. The purchase failed to meet GSA's criteria that the price be within 110 percent of its appraised value and that the purchase provide a 20-percent economic advantage over the cost of leasing equivalent space. An official in GSA's Atlanta Regional Office which negotiated the purchase said that the principal reason for making the purchase was the region's urgent need to move Coast Guard offices out of the Miami Federal Building to clear space for an asbestos removal project. (See app. I for additional details about the purchase of Brickell Plaza.)

When the region sent the proposed contract to GSA headquarters for approval, the $13.9 million price was 119 percent of its independently appraised fair market value of $11.7 million, or 9 percent higher than what PBS policy allows for prices in excess of appraised values.[8] The region claimed the building should have been appraised at $12.7 million because, it said, the appraiser overstated the building's operating costs which caused the building's value to be lower. However, GSA's Office of Acquisition Policy and Contract Clearance objected, noting that the negotiated price violated the PBS policy and that the region had no authority to revise the appraised value.

[8]GSA established its policy of allowing acceptance of real estate acquisition offers in amounts up to 110 percent of appraised fair market values when it purchased Judiciary Square.

GSA's deputy administrator then directed PBS's senior in-house appraiser to review the appraisal and revise it, if justified. The in-house appraiser lowered Brickell Plaza's operating costs and raised its appraised value to $12.62 million based, he said, solely on his experience and judgment. He characterized as coincidental the fact that the purchase price of $13.9 million was 110 percent of his adjusted appraised value of $12.6 million, bringing it into compliance with PBS policy. As described in appendix I, our consultant appraiser concluded that the original independent appraisal was well supported.

Before the purchase, GSA engineers estimated the cost of improvements needed at Brickell Plaza at about $3 million (an estimate subsequently supported by experience). Despite this estimate, the region reported to GSA headquarters that the building would require repairs and alterations costing only $667,530. The GSA headquarters official who prepared the OMB Circular A-104 analysis for submission to OMB said that he had never seen the $3 million estimate prepared by regional engineers. He said that, had he been aware of the extra costs, he would have included them in the analysis, which then would not have supported the purchase price.

The approximately $2.3 million difference between the $3 million engineering estimate and the $667,530 of repair costs reported by the region included such things as new carpet and ceilings, installation and relocation of electrical outlets, plumbing repairs, and reconfiguring interior layouts to meet the space needs of the new tenants, Customs and Coast Guard. When we recalculated the OMB Circular A-104 analysis after adding the additional repair and alteration costs that should have been included, the advantage of purchase outweighed leasing by about 14 percent, rather than the 20 percent that GSA policy required.

When we asked how the purchase decision was made, GSA's deputy administrator denied that the decision violated GSA policy for economic criteria required to justify a purchase. He strongly disagreed with our conclusion that the purchase was not justified but he did not address the issue of why the price paid exceeded appraised value by more than policy allows. Concerning our conclusion that the purchase did not meet the 20-percent economic benefit requirement, he said that the conclusion depended on what assumptions were used. However, we accepted all of GSA's assumptions and reached our conclusion only by adding in costs identified by Region IV that GSA headquarters officials who prepared the economic analysis said should have been included.

Nine Purchases Will Meet Quality Criteria

Of the 10 commercial office buildings included in our review, 9 met or will meet GSA's criteria for quality office space, as well as our supplemental criteria. All 9 are modern buildings characterized by GSA as "Class A" office buildings. All have been or are being modified to meet GSA's standards for fire and life safety and for handicapped accessibility standards, which are often more stringent than local building codes. Each of the 9 are either in close proximity to public transportation systems or else provide ample employee parking.

In most cases, GSA identified required modifications before the buildings were purchased, negotiated with the sellers of the buildings to accomplish the modifications, and included the negotiated cost of the modifications as part of the purchase prices.[9]

One Purchase Did Not Meet High Quality Standards

GSA purchased the Alan Bible Federal Building (formerly Bonneville Tower), a commercial office building in Las Vegas, Nevada, for about $9.9 million. Regional officials responsible for the purchase did not adequately evaluate structural problems identified by building inspectors during the evaluations required by the Building Purchase Program order, and the building did not meet the standards achieved with the purchases of the other nine commercial office buildings because its floor load capacities did not meet GSA's requirements. Even though some problems were identified before the purchase was complete, once regional officials began negotiating the purchase they did an inadequate job of evaluating the seriousness of the deficiencies.

Because the building contained structural defects that GSA failed to identify before purchase, the personnel of one agency moving into the building stopped their move when a floor began flexing and they feared the building was collapsing. However, other agencies that were already in the building remained. One day later, after GSA declared the building safe for occupancy, the agency resumed its move into the building.

A consulting engineer hired by GSA subsequently examined the floor that was evacuated. He concluded that all the floors in the building are sagging more than the specifications of the Uniform Building Code and

[9]The prices did not include modifications for two purchases, although modifications were identified and their estimated costs included in the present value analyses. During fiscal year 1988, GSA submitted a prospectus proposing alterations to Griffin Square in Dallas. Brickell Plaza repair and alterations were done under contracts awarded after the building was purchased.

accepted design practices of the American Concrete Institute permit,[10] and that the sagging would increase if the floors were fully loaded with furniture and people. Until additional testing is performed to determine the extent of the problem and what is needed to correct it, he recommended that floor loadings be reduced throughout the building. Altogether the building, which GSA purchased for less than $10 million, may need over $1 million in repairs. (See app. II for additional details about GSA's purchase of Bonneville Tower.)

GSA's Comments and Our Response

In response to our analysis of the Bonneville Tower purchase, GSA commented that our statements that it will be costly to correct structural and floorloading defects are incorrect. While the extent of the structural defects were unknown as of early August 1989, GSA said there is a structural warranty in the purchase contract which will provide for recovery of costs from the seller to correct any structural problems.

We agree that costs to repair the building where it fails to meet contract specifications should be borne by the seller of the building. However, GSA's response does not address the alternative housing costs it will be forced to bear because some, and perhaps all, of the floors that will require strengthening must be vacated for the construction work to proceed.

GSA also said that the region did follow building evaluation procedures. While GSA's San Francisco region did hire an independent contractor to evaluate the building, we concluded that the building was not adequately evaluated because of the structural problems identified after purchase. Furthermore, some of the problems the contractor did identify were not resolved before the building was purchased. We were unable to determine whether these problems occurred because the contractor did an inadequate job, the region was inexperienced in making purchase evaluations, the Building Purchase Program order is insufficiently specific concerning evaluation procedures to be followed, or for other reasons.

Conclusions

GSA has purchased quality commercial office buildings in cities where the government expects to maintain a long-term federal presence and has improved the government's owned-to-leased ratios in those cities.

[10]The Uniform Building Code, a publication of the International Conference of Building Officials, seeks development of better building construction and greater safety by unifying building laws. The American Concrete Institute publishes building code requirements for the proper design and construction of buildings of reinforced concrete which are used in the Uniform Building Code.

Most of the purchased buildings are, in our judgment, handsome modern office buildings that will provide a pleasant environment for the federal employees who will work in them and a suitable location for the federal government activities they contain. Most were obtained for prices less than GSA would have paid to construct or lease equivalent space. Even after the delays encountered in occupying about one-half of the purchased buildings (described in the next chapter), all were occupied in less time than the 5 years GSA says it takes to occupy a directly constructed building.

Three purchases did not meet the structural or cost-saving standards achieved by the other seven commercial office building purchases. Two of the three purchases, Judiciary Square and Brickell Plaza, did not meet GSA's or OMB's economic criteria required to support a purchase decision. In both cases, the prices paid for the buildings exceeded their independently appraised values by amounts greater than GSA policy defines as acceptable, and repairs and alterations required after the purchases were concluded further increased economic losses. GSA headquarters and regional officials who were responsible for the purchases were warned by GSA procurement oversight offices that the purchases were not sound economic decisions. However, once officials decided to begin negotiating with the buildings sellers, we found no evidence that alternatives received further consideration.

GSA purchased a third building, the Alan Bible Federal Building (formerly Bonneville Tower) in Las Vegas, which did not meet GSA's quality standards because it contained structural deficiencies when purchased. The regional officials responsible for the purchase apparently did not ensure that comprehensive engineering evaluations were done and that all costs were considered before they made the purchase decision. The additional costs GSA will incur to make corrections will reduce the economic benefits of this purchase by an unknown amount.

Recommendations

The Administrator of the General Services Administration should better ensure adherence to policies and procedures governing the Building Purchase Program by taking the following steps:

- Continue to seek opportunities to purchase quality, modern office buildings in cities with a long-term federal presence, provided that the economic benefits of ownership exceed those of leasing or constructing equivalent space.

- Strengthen internal controls to ensure that economic analyses prepared for building purchases include complete and realistic estimates of all acquisition costs and that purchase prices do not exceed independently appraised values by amounts greater than PBS policy allows.
- Do not purchase buildings which fail to meet program criteria without adequate justification.

Agency Comments

GSA was in complete agreement with our conclusion that it should continue to seek quality building purchase opportunities. GSA also said it was in the process of strengthening the policies and procedures governing the program.

GSA disagreed with portions of our analyses of its purchases of Judiciary Square in Washington, DC, and Bonneville Tower in Las Vegas, NV. We summarized their comments and provided our response on pages 19-20 and 23.

Need for Improved Program Management Policy and Procedures

GSA's internal policies for the Building Purchase Program do not provide adequate direction for some practices that have developed in purchasing buildings. GSA's policies and procedures have not kept up with the growth and evolution of the program. These policies and procedures are designed to allow GSA managers as much flexibility as possible which, in our opinion, has led to the use of certain questionable methods for purchasing buildings and preparing them for occupancy.

In addition, delays in occupying half the buildings have increased acquisition costs, but no procedures exist to specify actions GSA might take to ensure timely occupancy of purchased buildings. As of April 1989, more than 18 months after they said that the order was deficient, GSA officials had not amended the order providing policy and procedural guidance.

GSA's Building Purchase Program Order Does Not Provide Adequate Guidance for Obtaining Construction Services

GSA Order PBS 1600.8, dated September 19, 1984, establishes policy and procedures for the Building Purchase Program.[1] It provides broad authority for program managers to include in purchase contracts construction services needed to prepare purchased buildings for occupancy.[2] We believe that GSA made prudent business decisions following private sector practices for 5 of the 8 commercial office building purchases we reviewed which included construction in the purchase contracts.[3]

However, GSA's order is not sufficiently specific concerning the circumstances under which construction services may be negotiated as part of a building purchase transaction. The lack of specific guidance creates the potential that purchase contracts will be used to obtain services which should be handled through a separate contract in accordance with requirements for full and open competition in the Competition in Contracting Act of 1984 (CICA) and the Federal Acquisition Regulation (FAR), as well as prospectus approval requirements.

[1]Two buildings, Griffin Square in Dallas, Texas, and Judiciary Square in Washington, DC, were purchased before GSA issued the order.

[2]Under the Public Buildings Act of 1959, 40 U.S.C. 601 et seq., the Administrator of General Services is authorized to acquire by any means any building and its site determined to be necessary to carry out his duties under the act.

[3]The five buildings included those in Washington, DC; Denver, CO; Silver Spring and Bethesda, MD; and Las Vegas, NV. We address the three with which we found problems on the following pages. Brickell Plaza and Griffin Square did not include construction services in the purchase contract.

We believe that the order's guidance concerning construction services is deficient in several respects. First, the order does not limit the construction services which may be included in a building purchase contract to those which are integral to the acquisition of an agency-ready building, thereby creating the potential that additional services may be obtained without competition or prospectus approval. Second, the order provides no guidance on whether contracts may be modified or on the length of time after the buildings are purchased that modifications may be made. Finally, neither the order nor supplementary guidance explicitly limits construction services subject to negotiation in a building purchase to those which the owner of the building is willing to provide. In the absence of an explicit limitation, GSA in three cases involved third parties in a building purchase transaction which resulted in it obtaining construction services on a noncompetitive basis, in circumvention of CICA and FAR.

GSA's Order Does Not Adequately Define Construction Services Which Can Be Included in Building Purchase

As noted in chapter 2, all commercial buildings GSA has purchased required modifications before federal agencies could occupy them.[4] The commercial buildings GSA purchased required additional construction to meet federal fire and life safety and handicapped accessibility criteria. Most new buildings GSA purchased had bare floors, no interior walls, and required the entire interior layout to be constructed. Some buildings which contained partially built-out interiors required interior rearrangements to satisfy the needs of the agencies designated to occupy them.

GSA established a policy to include such construction needed to prepare buildings for occupancy in purchase contracts because officials wanted to avoid the delays inherent in seeking prospectus approval and, according to some program officials, competitive offers. GSA's Building Purchase Program order states that required improvements are to be negotiated as part of the purchase price. All improvements must be completed, if possible, before purchasing a building. Although contracts may not be made with owners to perform work or services after the purchase, owners may be paid from funds withheld for work and services originally agreed to under the purchase contracts. With respect to the type of improvement which may be included in a purchase contract, the

[4]The Griffin Square purchase in 1984, the first under the program, had been leased by GSA and so was already occupied at the time of purchase. Required building modifications were identified, but had not yet been accomplished as of June 1988. During 1988, GSA submitted a prospectus to Congress proposing repairs and alterations to the building with estimated costs of about $1.9 million.

order provides only that an improvement, "may include, but is not limited to, initial space alterations, fire and safety improvements, special provisions for handicapped persons, etc."

Since the fundamental objective of the Building Purchase Program is to enable GSA to act quickly to acquire existing buildings for agency use, we believe that GSA may negotiate with the owner of a building for construction services limited to those which are integral to the acquisition of a finished building ready for agency occupancy. However, GSA's order listing allowable improvements is open-ended and does not limit construction services to those which are integral to the acquisition of an agency-ready building. Without a limitation on allowable improvements, the potential exists that repairs and alterations above and beyond those needed to meet the basic occupancy needs of a tenant agency could be negotiated as part of the building purchase, in circumvention of requirements for competition and prospectus approval. In order to prevent such a circumvention, GSA needs to develop a specific and limited definition of the kinds of improvements which are integral to a building purchase and therefore may be included in the purchase contact.

GSA's Order Does Not Limit Modifications That May Be Made to Purchase Contracts

The GSA's Building Purchase Program order says that no contracts may be made with the owner to do any work or services after purchase. However, a potential problem exists because the order does not say whether modifications may be made to the parts of the contracts defining construction services nor does the order limit allowable modifications in any way. Modifications could be made to contracts long after buildings are purchased. For instance, the amount held back for "agency above standard finish work"[5] at Bonneville Tower was only an estimate of what that work might cost because GSA did not know what the total requirements might be. The purchase contract stated that if the holdback allowance for agency above-standard work had been used up, additional payments would be made within 30 days of inspection and acceptance of the work.

[5]"Agency above-standard finish work" is construction specified by the agencies occupying a purchased building, such as kitchen facilities or special computer support requirements, which is more than the standard finish GSA provides in any government-owned building. The agencies reimburse GSA for the cost of their above-standard requirements.

GSA's Order Does Not Specifically Limit Construction Services to Those Provided by Building Owners

The Building Purchase Program order provides that improvements are to be negotiated as part of the purchase price and that, if they cannot be negotiated, they are to be handled through normal budgetary procedures. Implicit in the authorization for negotiation of improvements is the assumption that the owner of the building will provide the construction services.

However, three of GSA's purchases—one in Atlanta and the two in Houston—were made from sellers who either did not desire or had no capability to do the required construction. In these 3 cases, GSA identified third parties to purchase the buildings, resell them to GSA, and then modify them as necessary. GSA did this to avoid the delays that result when it seeks prospectus approval and, according to some program officials, when it follows the competitive procurement process.

We believe that GSA's arrangements to obtain construction services from third parties as part of a building purchase contract circumvented the competition requirements of CICA and FAR. These third-party arrangements were entered into solely for the purpose of obtaining construction services the building owner would not provide and cannot reasonably be viewed as part of the basic real estate transaction through which GSA acquires a building. Arrangements with third parties for construction services should be handled as separate contracts, in accordance with competition requirements in CICA and FAR, and GSA's order should be revised to specifically incorporate a requirement for competition in these cases. In addition, the order should address the applicability of prospectus approval requirements to contracts with third parties.

Whether prospectus approval is required before construction services are obtained will depend on the source of funding used for the services. Where these services are paid for with Building Purchase Program funds, no prospectus approval is required. If these services are not paid for from those funds or other appropriated funds Congress exempted from the prospectus approval process, then they are subject to the normal prospectus requirements set out in the Public Building Act of 1959.[6]

The details of the three cases in which third-party arrangements were used are as follows. Both of the Houston purchases were owned by banks or lending institutions as a result of foreclosures. Third parties which had managed the properties for the financial institutions or acted

[6] For a further explanation of the statutory prospectus approval process, see the glossary.

as sales brokers agreed to do the construction GSA required. The buildings were transferred from the financial institutions through the third parties to GSA, and contract documents identified the third parties as the sellers of the buildings to GSA.

While there is no evidence that the buildings' purchase prices were higher because of the involvement of the third parties, GSA did pay them about $1 million, 15 percent of the amounts held back for construction, for their overhead and profit as first tier contractors. GSA also made payments to general contractors obtained by the third parties which included amounts for their overhead and profit, as second tier contractors, for work normally done by first tier contractors.

In our opinion, the arrangements in these cases not only circumvented CICA and FAR but also involved payments that were both unnecessary and excessive. The payments of 15 percent of the purchase price held back from immediate payment, representing the cost of construction needed to prepare the buildings for occupancy—10 percent for overhead and 5 percent for profit, appear excessive when compared with the amounts GSA agreed to pay for the overhead and profit on the needed construction at Bonneville Tower, which was purchased after the two Houston buildings were bought. At Bonneville Tower, GSA limited the seller to receiving only 4 percent of the costs of construction as overhead and 3 percent as profit. (See app. III for additional details about the two Houston purchases.)

The third building purchase involving a third party, Peachtree Summit in Atlanta, Georgia, was purchased for a total of $68 million, of which $15.5 million was for construction, thus making the price of the building alone $52.5 million. GSA attempted to arrange the purchase through a third party when the building's seller was not willing to do the needed construction as a condition of sale. The contract originally proposed by GSA's Atlanta Region, which negotiated the purchase, was found by the Inspector General to be in possible violation of 31 U.S.C. 3324 because it appeared to be an inappropriate advance of public monies. Subsequently, new contracts were drafted that eliminated this unacceptable provision. These new contracts, however, still involved third parties in the building transfer to accomplish needed construction which could have been performed by others after a competitive process.

Because GSA's Inspector General in the Atlanta regional office initiated an investigation into a possible conflict of interest between the regional staff and one of the contractors selected, we did not pursue our investigation of the contracting procedures used. (See app. IV for details about this purchase.)

Leveraged Purchase Arrangements Lead to Uncertainties About Costs and Results

Two buildings in the Washington, DC metropolitan area—One White Flint Plaza in Rockville, MD, and Silver Spring Metro Center in Silver Spring, MD—were purchased as part of a planned acquisition of larger blocks of space needed to consolidate agency headquarters that were spread among a number of leased and owned locations. In order to obtain sufficient space necessary for consolidation, GSA committed to leases of additional buildings to be built by the sellers under what it termed "leveraged purchase arrangements." However, GSA's acquisition plans for both locations involved certain risks.

- The space needs of the agencies designated to occupy the buildings changed before all buildings became available.
- The builders' plans had not received final approval from local government bodies before GSA had to commit to leases of the follow-on buildings.

In both cases, by deciding to purchase the initial building, GSA was committed to obtaining leases for the additional buildings to reach its consolidation goals. The complex planning and coordination among GSA, the builders, and the agencies designated to occupy the buildings have resulted in additional costs not anticipated when GSA made the initial purchases and committed to the leases of the additional buildings. GSA has experienced delays in occupying the purchased buildings which have led to increased costs. Occupancy of the first of the two planned White Flint buildings was delayed, among other reasons, because additional construction was needed to satisfy the "above standard finish" requirements of the occupying agency. Occupancy of the first of four planned buildings in the Silver Spring complex was delayed because of incomplete planning by GSA and the occupying agency. The second building has also been delayed. Construction start dates for the third and fourth buildings are still in the future. (See app. V for details about the White Flint purchase and its follow-on lease. App. VI provides details about the Silver Spring Metro Center purchase and the follow-on leases.)

Different Criteria Needed for Economic Analyses of Leveraged Purchases

As required by OMB, GSA prepared economic analyses for the purchased buildings at both White Flint and Silver Spring as if no additional buildings were to be obtained. Both analyses concluded that each purchase would be at least 20 percent less expensive than leasing equivalent space.[7] However, since neither building alone provided sufficient space for the agencies designated to be consolidated at each new location, without the additional buildings, GSA would have been unable to consolidate those agencies.

The analyses for both buildings included interim housing costs, representing the cost to continue renting space for the occupying agencies between the time buildings were purchased and occupied. However, due to the delays in occupying the buildings, those costs were higher than the estimated costs included in the analyses. Had the higher costs been used, the purchases might not have met the 20-percent criteria GSA requires to justify purchases. While we do not believe GSA could have predicted the delays it experienced in occupying the building, we do believe that uncertainties are inherent in leveraged purchases and GSA should allow for the increased risk by establishing a threshold higher than 20 percent for leveraged purchases.

GSA did not advertise to seek competitive offers for the needed leased space at White Flint before awarding the lease for the second building. GSA later decided that competition generally would have been required, but the Administrator of GSA justified the non-competitive award of the lease of the second White Flint building under CICA's public interest exception. This exception is applicable where the agency head determines non-competitive procedures are necessary in the public interest and provides 30-day notice to Congress before contract award.

When GSA undertook the Silver Spring acquisition, officials believed GSA could award the leases only after having received competitive offers and having obtained congressional approval of a lease prospectus for the additional buildings at Silver Spring before it could commit to those leases. To obtain competition, GSA advertised its needs for space, and indicated it would accept an initial building already or substantially constructed that would be purchased, and additional planned buildings to

[7] GSA's economic analyses for these two purchases only compared the present value cost of purchase and lease. Construction was not included in the analysis because GSA believed construction was not a realistic alternative. However, because the economic analysis for the leases at Silver Spring showed construction to be the most economic alternative, GSA returned to including construction in the analysis.

be leased or purchased, so long as the total space available met the minimum advertised need. GSA received 11 offers, including the Silver Spring complex of buildings, which it selected.

As part of its prospectus proposal for the leases of the additional Silver Spring buildings, GSA prepared a separate economic analysis just for the leases which showed that over a 30-year period federal construction would be less costly than (1) leasing space elsewhere, (2) leasing the four buildings, or (3) leasing the four buildings for 5 years and then purchasing them. Despite the analysis showing construction to be cheaper, GSA's proposal recommended that the purchase options should be exercised after 5 years of leasing. GSA officials said this was because the purpose of the prospectus was merely to obtain authority to enter into the leases.[8]

We believe that GSA should reevaluate the way it prepares economic analyses for leveraged purchases. If GSA's goal is to acquire a complex of buildings then it should base its decision on an analysis of the entire acquisition and compare the present values of all combinations of purchases and leases that are available with the cost of constructing the required space. Furthermore, because of the inherent uncertainties we described, GSA should consider establishing a higher threshold to justify such complex acquisitions than the 20 percent required for the acquisition of a single building.

Delays in Occupying Purchased Buildings Have Increased Acquisition Costs

In its economic analyses comparing present value costs of purchase and lease, GSA has often made optimistic assumptions about how quickly purchased buildings will be occupied and savings will begin to accrue from the release of leased space. In half of the 12 purchased buildings we reviewed, agencies occupied the buildings later than was planned by GSA. Some of the delays have resulted in increased acquisition costs

[8]It should be noted that the requirement for prospectus approval to enter into the Silver Spring building leases has no bearing on building acquisitions under the order, including other leveraged purchase arrangements, funded by Building Purchase Program no-year appropriations. GSA funded these leases out of funds appropriated to the agency for rental of space, rather than from Building Purchase Program funds. The lease prospectus for this transaction was submitted in May 1987, for funds not yet appropriated, as part of the Public Building Service Lease Prospectus Program for Fiscal Year 1988. The Public Buildings Act of 1959 (as amended) deals with congressional authority to appropriate funds, stating that no appropriation may be made to lease any building to be used as a public building costing (at that time) more than $500,000 without prospectus approval by congressional subcommittees. We believe leveraged purchase arrangements, including provisions for lease and purchase options, are acquisitions which may properly be funded by available Building Purchase Program appropriations. GSA has the discretion under 40 U.S.C. 602 to undertake such a transaction to acquire needed buildings and sites by "purchase, condemnation . . . or otherwise."

because leased space was not released as quickly as planned. Delays have been caused both by the agencies and by GSA. In some cases, agencies have failed to return drawings describing space layouts when required or have not planned for all contingencies associated with their moves. Other delays have been caused by poor coordination among GSA offices involved in planning construction and occupancy schedules.

GSA's Building Purchase Program order provides guidance for identifying buildings to purchase and the procedures used to acquire them. It provides no guidance about the kinds of coordination that should take place internally and externally. However, agencies moving into purchased buildings face the following kinds of problems:

- New furniture may need to be procured, particularly if agencies are occupying less space than at their old locations. Systems furniture may be required to meet the current standard of no more than 135 square feet of space per employee. For instance, NRC did not initially plan to acquire new furniture when it occupied its new building in Rockville but had to change its plan since it would not have been able to house all its employees without a modular furniture system.
- Agencies must prepare plans for GSA describing how they want building interiors configured. GSA received agency interior design plans later than required, causing construction and occupancy delays for buildings in Houston, Miami, and the National Capital area.
- If agencies do not have money budgeted for their moves, they may require congressional approval for reprogramming appropriated funds or for supplemental appropriations to pay for the moves. NOAA experienced this problem in moving to Silver Spring.
- Agencies may not plan their moves well. NOAA's initial plan to occupy Silver Spring deferred the release of the leased space it was vacating which increased costs. When the IG for the Department of Commerce[9] questioned the extra costs involved, NOAA was forced to change its occupancy plan. GSA was aware of the original plan's weakness but did not object.

Nothing in GSA's order requires consideration of such agency problems before or after GSA purchases a building. In some cases, agencies are not aware that GSA is purchasing a building for their occupancy until GSA feels secure that the building will be purchased. Because potential delays and their associated costs are often not identified until after GSA

[9]NOAA is an agency under the Department of Commerce.

completes its economic analyses for the purchases, the costs of delays in occupancy are not included in the analyses.

Table 3.1 shows buildings that have been occupied later than planned by GSA, our estimate of the costs of the delays, and reasons for the delays:

Table 3.1: Building Occupancy Delays

Building	Estimated cost of delay	Reason for delay
Judiciary Square, Washington, DC	Unknown[a]	GSA had to solicit bids for new furniture required for the Department of the Treasury and had problems getting delivery of correct furniture; Treasury reorganization caused need for new floor plan designs which delayed construction.
Brickell Plaza, Miami, FL	Unknown[b]	Coast Guard occupied space in the building later than planned due to construction delays in completing interior renovations; U.S. Customs occupied on time but before completion of interior renovations to space they occupied.
One White Flint Plaza, Rockville, MD	$400,000	Delays in completing interior design and construction forced GSA to extend three leases of space occupied by the agency designated to move into the building.
Silver Spring Metro Center, Silver Spring, MD	$150,000[c]	NOAA did not originally plan to occupy the new space in a way that would have released previously leased space and had to change its occupancy plan and interior design plans; GSA experienced delays in completing original interior design plans, which then had to be changed to support the new occupancy plan of NOAA.
Alliance Tower, Houston, TX	$700,000	IRS did not submit its interior layout requirements when required by GSA.
Concorde Tower, Houston, TX	$650,000	IRS submitted its interior layout requirements late; GSA experienced delays in completing a building communications system.

[a]We were unable to determine how much additional lease costs GSA paid for space expected to be released by Treasury's move into the new building because of poor recordkeeping.

[b]The Coast Guard moved from government-owned space and so no rental payments were involved; we could not determine if GSA had additional costs due to the delayed move.

[c]This represents additional design costs GSA incurred because NOAA changed its occupancy plan. Additional lease costs were also incurred, but we were unable to determine how much.

GSA's Building Purchase Order Needs Amending

As discussed above, GSA's 1984 order as supplemented by memoranda issued by GSA headquarters does not sufficiently describe procedures to be followed in obtaining construction services and making leveraged purchase arrangements. Furthermore, both the order and supplementary guidance cover only the acquisition procedures to be followed in purchasing buildings. They say nothing about procedures to be followed in ensuring buildings are occupied in as timely a manner as possible. Other organizations within GSA, besides those that purchase buildings, have responsibilities for space management. We believe the order needs to better delineate the responsibilities of GSA staff in the building purchase and space management offices for assuring occupancy schedules and other acquisition requirements are coordinated with a purchased building's availability.

GSA officials have in general acknowledged that the order guiding the Building Purchase Program is deficient, but, as of April 1989, more than 18 months after their acknowledgement, little has been done to amend it. The official order was issued in September 1984 after the first two buildings were bought. Since then, 11 additional buildings have been purchased, and procedures and practices used to purchase buildings have been used that are not covered by any policy or procedures in the order.

In 1986, GSA headquarters asked the regions to comment on a draft order to replace the 1984 order. The draft order did not address many of the problems described in this report. Instead, it restated many of the policies and procedures in the original order and incorporated some of the guidance issued as memoranda subsequent to the original order. The contracting officer in GSA's National Capital Region who negotiated the Silver Spring Metro Center purchase thought the draft order was inadequate for providing the kind of guidance needed for such complex acquisitions. However, the draft order was used as the principal guidance by the San Francisco and Fort Worth regions for the five purchases they made after receiving the draft, including the two Houston purchases that included third parties.

In order to ensure that the Building Purchase Program is carried out efficiently and in accordance with applicable legal requirements, GSA needs to issue a revised order addressing the problems noted in this report.

Conclusions

GSA's order guiding the Building Purchase Program is too limited in scope. The order fails to specify the types of building improvements which are allowable to obtain an occupiable building and which therefore may be included in a purchase contract without competition or prospectus approval. In addition, the order does not define the types of modifications that are acceptable to contracts that include construction obtained without competition after the contracts are signed or for how long contract modifications will continue to be allowed. As we noted in chapter 2 regarding the Judiciary Square building, contract modifications made after its purchase increased building acquisition costs to such an extent that the purchase was about 4 percent, or $1 million, more expensive than leasing space would have been over a 30-year period.

Furthermore, lack of guidance specifically limiting the construction services which may be included in purchase contracts to those which a building owner is willing to provide has led to third-party arrangements that circumvented requirements to obtain competition. In three cases when the building owner would not do the required construction, GSA contracted with third parties acting as agents who, for a fee, contracted with general contractors. These arrangements not only circumvented competition requirements, but, in two cases, resulted in GSA paying $1 million more than was necessary for construction. GSA used this procedure to avoid the prospectus approval and, according to some program officials, competitive processes that GSA believed would be required if the construction were procured separately.

Contracts to purchase buildings that included options to lease or purchase additional buildings, made to achieve agency-specific space consolidation goals, led to uncertainties and increased acquisition costs principally because they involved extensive delays over which GSA had little control. They required GSA to guess about future events, assume that requirements would not change, and defer the benefits of consolidation that GSA sought to achieve. For the Silver Spring purchase, the leveraged purchase was known to be more expensive than construction of the needed space.

GSA's planning for occupancy of purchased buildings was overly optimistic. Half of the buildings purchased have not been occupied by dates originally planned. The delays resulted in additional costs for interim housing or for redesign of interior layouts. Delays were caused by GSA and the occupying agencies. However, GSA scheduled construction and occupancy without adequate liaison with agencies to determine if the occupancy schedules could be met, although GSA officials admitted that their previous experience in getting agencies to occupy new space indicated that occupancy delays were not uncommon.

As of April 1989, more than 18 months after saying that the Building Purchase Program order should be modified to provide better policy and procedure guidance, GSA officials have not revised the order. Needed revisions include a detailed description of the circumstances under which construction services can be negotiated in a building purchase transaction, guidelines for the use of leveraged purchase arrangements, and procedures for coordination between GSA and agencies that are to occupy purchased buildings. Also, as we indicated in chapter 2, GSA's analyses of the economics of purchases need to be strengthened to ensure that it selects the most economic alternative—purchase, lease, or construction—for providing the needed space.

Recommendations

The Administrator of the General Services Administration should revise the Building Purchase Program order in the following ways:

- Include a specific definition of the limited kinds of repairs and alterations which are integral to a building purchase and therefore may be included in a purchase contract without competition or prospectus approval.
- Establish procedures that define when and for how long modifications can be made to construction contracts to prepare buildings for occupancy after the buildings have been purchased.
- Specify that CICA and FAR procedures must be used in contracting for construction services when they cannot be obtained from buildings' owners.
- Establish procedures that require coordination between GSA and agencies designated to occupy purchased buildings to reduce or eliminate the delays that have occurred in occupying purchased buildings.
- Ensure that the present value of the alternatives available under leveraged purchase arrangements, including all combinations of purchased and leased buildings, is compared with the present value of constructing the total space required.
- Consider establishing a threshold higher than the 20 percent for all alternatives that combine purchases and leases, to offset the increased risk in such cases

The Administrator should consider the policy and procedures improvements recommended in this report before purchasing any additional buildings if purchase opportunities arise before the Building Purchase Order is revised.

GSA's Comments and Our Response

GSA comments on a draft of our report said its practice of obtaining alterations as part of the purchase contract was not driven by a desire to avoid competition or circumvent CICA and the FAR. However, GSA does agree that the practice was used to avoid prospectus approval of construction contracts that it believed would be necessary if construction with costs exceeding the threshold requiring prospectus approval were procured under contracts separate from the purchase contract. GSA agreed that the practice of using third parties has not been addressed in policy and a policy correction is needed.

We note that the practice of including alterations in the purchase contract to avoid prospectus approval also has had the effect of avoiding competition in obtaining construction contracts. In the cases where third parties were used, competition was improperly avoided, whether or not this was GSA's intention.

GSA commented that the consolidation of NOAA in the Silver Spring complex is an important acquisition objective and that total agency consolidation will be impossible without occupation of adjacent facilities. GSA said it expects, at a minimum, to achieve partial agency consolidation even if it does not acquire all adjacent facilities in the original plan.

Our concern about this purchase was GSA's need to lease additional space, which would not become available for occupancy for several years, in order to consolidate NOAA. If the options to lease the additional buildings had not been exercised, GSA would have owned a building that it had purchased only to support a consolidation that could not occur without the additional buildings. We believe that such complex multi-building acquisitions which will take a long time to implement are risky and require more careful analysis than relatively simple single building acquisitions do, because GSA must commit to leasing the buildings long before they are available for occupation, and conditions can change in the interim.

GSA commented that it does not agree that the Building Purchase Program order should include guidance concerning occupancy issues and delay avoidance because they are not unique to the program and are guided by existing policy for such issues.

We believe GSA should incorporate into the order lessons it has learned from problems experienced with the first 13 purchases. We believe some problems have occurred because those responsible for negotiating the purchase did not consider what would be required to occupy the building and that the order should make reference to other policies that will affect the timeliness of a purchased building's occupancy so that such issues will be considered when time schedules to be included in a purchase contract are negotiated. Furthermore, as delays can affect costs, such costs should be included in the economic analyses for purchased buildings.

GSA also commented that it had started to revise the order. GSA told us that it decided to defer its work on the revision until issues contained in this report were resolved and recommendations provided. We believe that, if GSA purchases other buildings before the order is revised, the conclusions and recommendations in this report should guide GSA's purchase negotiations.

Policy Allowing Purchases of Older Buildings Needs Reevaluation

It is not clear that two purchases of older special purpose building complexes that GSA had leased for over 20 years will provide quality space with minimum life cycle costs. The buildings, from 19- to 24-years-old at the time of purchase, are considered special purpose space because they are used to house large-scale computer operations. While GSA's policy specifies that office buildings considered for purchase should be no more than 10- to 15-years-old, the policy makes an exception for special purpose structures and does not specify any upward limits on the age of the structures that may be considered for purchase.

GSA purchased the buildings for two reasons. First, their leases were nearing expiration and the owners were willing to sell the buildings at attractive prices. Second, GSA believed that its only options were to purchase the buildings or continue to lease them because of the unusually high cost of moving the agencies and their computers. However, in our opinion, GSA did not fully analyze all the costs of ownership before it purchased the buildings; therefore, neither we nor GSA know if the economics of ownership justified the purchases.

GSA's Purchases of Special Purpose Structures Did Not Meet Standards Required for Commercial Office Building Purchases

Both purchases were of leased buildings which GSA had caused to be constructed to meet government specifications on formerly government-owned land 22 to 24 years before GSA bought them. The first purchase, in 1985, consisted of a complex of three buildings in Austin, Texas, for which GSA paid $27.2 million. The oldest building in the complex had been constructed 22 years before the purchase. The second purchase, in 1986, was of a building in Chamblee, Georgia, which cost $13.2 million and which had been constructed 24 years before the purchase. During the years the buildings were leased, both GSA and the tenant agencies had spent considerable funds for maintenance, renovations, and additions to the buildings. An official in GSA's Fort Worth Regional Office estimated that around $9 million had been spent for repairs and alterations at the Austin complex. IRS estimated that it and GSA had spent about $6 million at the Chamblee building during the period it was leased. GSA could not tell us what the total expenses had been at Chamblee.

The buildings at both locations are computer service centers, housing large scale computer operations of the tenant agencies. GSA had estimates that moving costs at Austin would be $37 million. IRS estimated its moving costs at Chamblee would have ranged from $1.1 million to over $20 million. GSA believed its only options were to purchase or continue leasing the buildings because its analyses showed that moving the agencies would involve high moving costs and the loss of significant capital investments in the leased buildings and, in Austin, according to GSA, there were no other alternative sites available for lease.

Building quality at both the Austin and Chamblee service centers did not meet GSA's standards for commercial office buildings because of the age of the structures, which had already required considerable expenses for maintenance and renovation and will require additional repair expenses. One official at GSA's Fort Worth Region, which negotiated the purchase of the Austin buildings, said that since they were constructed 20 to 25 years ago and before the "energy crunch" of the 1970s, the buildings are not considered Class A office space. An official at GSA's Atlanta Region, which purchased the Chamblee IRS Center, said the building's electrical problems are not uncommon in buildings of the same age.

The buildings have required alterations, such as raised flooring and electrical system improvements, to accommodate the computer activities of the agencies they house. OMB's Associate Director for Management questioned the wisdom of purchases of such special purpose buildings housing large-scale computer operations because he questioned whether changes in computer technology might result in the government owning buildings that cannot be economically adapted to future changes in computer technology, such as agency operations that move to dispersed locations.

In our opinion, there is no reason to apply a lesser quality standard that is acceptable for purchases of special purpose space than is used for defining acceptable commercial office building purchases. GSA's policy says commercial office buildings that are acceptable for purchase should be no more than 10- to 15-years-old at the time of purchase and be "class A," state-of-the-art buildings. We believe that the critical computerized operations of the agencies in the Chamblee and Austin special purpose facilities needed state-of-the-art buildings no less than those agencies that occupied commercial office buildings, and perhaps more.

Furthermore, GSA's economic analyses of the purchases did not include the costs of upgrading the special purpose buildings to become "class A" state-of-the-art buildings suitable for the kinds of computer operations they housed. Rather, we believe the analyses included the costs of maintaining the buildings at the quality level that existed at the time of purchase, which may be less than will be needed. GSA did not attempt to determine what the agencies occupying the buildings will need to spend to upgrade the buildings to adequately support their operations. Nor did GSA include in its economic analyses of the purchases the estimated total cost to the government of upgrading the buildings to provide the quality space the agencies need. Had it done so, the economic benefits of the purchases might have been much lower.

Economic Analysis of Service Center Purchases Did Not Include All Costs

GSA's economic analyses of the two service centers did not include all costs of acquisition because it had not determined the cost at the time of purchase of some work it knew was needed. Consequently, the purchase benefits in both cases were overstated by an unknown amount.

GSA's Building Purchase Program order says "building systems and subsystems will be evaluated for compliance with criteria. . . . The cost of any upgrading should be included in the economic evaluation." However, GSA did not include in the analysis the cost to repair the electrical defects in the Chamblee building because the cost of the needed repairs had not been determined. GSA's economic analysis, which claimed a 21-percent benefit over leasing, might not have provided the 20-percent benefit over leasing that GSA requires had it identified those costs. GSA's economic analysis of the Austin purchase used a 3-year-old inspection report identifying deficiencies requiring correction. Furthermore, GSA's analysis did not consider the cost of removing asbestos which GSA inspectors had identified in the buildings because GSA improperly assessed the extent of the asbestos contamination, overlooked evidence that it might be serious, and accepted the certification of the seller that no friable asbestos existed in the building.

IRS/DVA Center, Austin, Texas

The Austin complex consists of three buildings used by IRS, DVA, and the U.S. Treasury. The first building was constructed in 1963, the second in 1967, and the third in 1968. Since each was constructed, two additions were built onto the first building, in 1967 and 1974. The second building received an addition in 1972. An independent real estate appraiser estimated, as of August 1984, the fee simple value[1] of the Austin complex to be $40 million, and the leased fee value[2] to be $31.7 million. GSA purchased it in April 1985 for $27.2 million. (See app. VII for details about this purchase.)

[1] Fee simple interest is absolute property ownership clear of any conditions or restrictions. In the case of a lease of the property, the owner would be deprived of full and absolute ownership of the property (fee simple interest) until the lease terminated.

[2] Leased fee interest is ownership of property encumbered by lease agreements conveying use of the property to others.

During fiscal year 1988, GSA prepared a prospectus proposing an expenditure of about $10.4 million for repairs and alterations at the Austin IRS/DVA complex. A 1982 engineering evaluation had predicted needed repairs could cost $17.8 million by 1986, although the 1982 estimate was reduced in 1985 to $14.7 million. The prospectus included about $2.7 million for asbestos abatement, which was not identified as needed in 1982, and about $1 million for correction of fire safety deficiencies. It included roof replacement costs of about $6.8 million, identified then as necessary to meet government standards for energy efficiency.

IRS Service Center, Chamblee, Georgia

IRS's Chamblee Service Center consists of a single 1-story building that provides about 319,000 occupiable square feet of space. The building was constructed for IRS under a lease agreement in 1962 on land formerly owned by the government; the land completely surrounding the building is still owned by the government. An addition to the original building was constructed in 1969. GSA paid $13.2 million for the building when it was purchased in December 1986 after it had received an appraisal which estimated the fee simple value of the building to be about $15.65 million and the leased fee value as $13.3 million.

GSA's Region 4 in Atlanta determined before it purchased the building that the service center was well maintained and was in good condition. However, a condition of the sale required the building's seller to remove asbestos from the building, at a cost of about $1.7 million, and GSA paid about $500,000 for temporary space during the period of removal.

Although GSA's pre-purchase inspections determined that the building did not meet fire safety or electrical system standards, GSA regional officials said that the problems did not represent serious hazards and available funding was being directed to higher priority work. While some progress has been made on fire safety by adding sprinklers in part of the building, additional work estimated to cost over $900,000 remains to be done.

According to a 1980 GSA study, the building's electrical system does not meet building code requirements and has potential for causing short circuits. An IRS architect believed this problem should have been corrected and said that GSA was asked to do so, but no action was taken. GSA's 1986 pre-purchase inspection report characterized the problem as serious because of the potential for severe damage to the building from short circuits. However, the report went on to state, "because this hazard has been known for a considerable time and the corrective actions may be extensive and costly, no recommendation is being made to take instant corrective actions." As of June 1988, GSA had no plans to correct the problem because it did not consider that the problem merited a high priority. IRS plans to have another study of the problem made when it is delegated authority for building management to determine what corrective action needs to be taken.

Conclusions

GSA has accepted buildings of lesser quality when it purchases special purpose structures than it does when it purchases commercial office buildings. Several of the buildings at the two service centers were nearly twice as old as is acceptable for commercial office buildings. Both GSA and the occupying agencies had incurred considerable costs for repairs and maintenance during the period they were leased and GSA knew they would require additional repairs and renovations. While GSA's economic analyses supporting the purchase decisions showed the benefits of ownership exceeded those of constructing or leasing equivalent space, GSA did not determine the costs of known repair needs nor the costs to improve building quality needed to support the agencies' operations, nor did it include those costs in the analyses. Had they been included, the estimated costs would have reduced the economic benefits of ownership.

Both purchases are special purpose space housing large-scale computer operations. In both cases, the agency requirements presented complex problems for GSA because moving the agencies would have been expensive and disruptive of critical computer operations. In our opinion, GSA's decision to purchase entailed acceptance of higher operating costs than newer buildings require and continuing repair and alteration expenses. Even if GSA had recognized the potential problem that it might be purchasing buildings that would not adequately serve future computer technology, GSA was obligated to provide buildings capable of housing the current computer operations of the tenant agencies.

The Austin and Chamblee service centers are the only purchases GSA has made of special purpose space, but other similar opportunities could develop for GSA to purchase special purpose space that it has been leasing for long periods. We believe that GSA should develop criteria for such purposes that address the quality standards to be met and all the costs that can be anticipated by both GSA and the agency housed in the space to determine if the benefits of the purchase will exceed the costs.

Recommendation

The Administrator of the General Services Administration should develop standards defining quality for the purchase of special purpose space, such as the Austin and Chamblee service centers, as has been done for purchases of commercial office buildings. The policy should require identifications of costs that both GSA and the occupying agencies can anticipate will need to be incurred to achieve the quality standards established.

GSA's Comments and Our Response

In its comments on a draft of this report, GSA said that quality is one factor that must be considered along with many others. Concerning the IRS Service Center in Chamblee, Georgia, GSA said that while the economic analysis did not include the cost to upgrade the building's electrical system, other potentially offsetting costs were also not considered and the failure to consider the electrical system upgrade is not an overriding factor. While the building was over 15-years-old when purchased, GSA said that does not automatically mean the building was of such poor quality to adversely affect the agency's mission and, moreover, IRS was fully supportive of GSA's decision to purchase the facility. Therefore, GSA does not support a quality recommendation or establishment of a definition of quality that would preclude consideration of such facilities as were purchased at Chamblee and Austin, Texas.

We agree that age of structures alone should not preclude them from purchase considerations. However, we believe that age is an indicator of potential quality problems. GSA believes it is important for the purchase of commercial office buildings, because it defines age as a criterion for such purchases. However, it does not do so for special purpose structures. We believe that if GSA is to make an exception to its age criterion for special purpose facilities, then GSA needs to establish other criteria defining acceptable quality in such structures and procedures to assess the structures against those standards, and that the costs of the improvements needed should be included in economic analyses comparing purchases with other alternatives.

Brickell Plaza, Miami

The Brickell Plaza building in Miami, Florida, was constructed as general purpose office space and was 15-years-old when purchased in 1986. The $13.9 million purchase price GSA paid for the building was 119 percent of an independent real estate appraiser's $11.7 million estimate of its fair market value.

Before GSA purchased Brickell Plaza, GSA-controlled space in Miami was 34 percent owned and 66-percent leased. With the purchase GSA expected to achieve a ratio of 44-percent owned-space to 56-percent leased. However, an official in GSA's Atlanta Regional Office which negotiated the purchase said that the principal factor that led to GSA's purchase of Brickell Plaza was the region's urgent need to move Coast Guard offices from the Miami Federal Building to clear space in that building for an asbestos removal project.

The region began negotiating the purchase of the building after an in-house appraisal had estimated its value to be about $13 million, but before it received an independent contract appraisal that estimated the fair market value as $11.7 million. Regional officials negotiated a purchase price of $13.9 million that included concessions to the seller which brought the total effective purchase price to $14.4 million, according to PBS's Office of Facility Planning (OFP), which strongly opposed the deal. OFP noted that the region had determined that $13 million was the maximum justifiable price and that a price of $13.9 million without the concessions was about "8 percent more than what could be considered a marginally good purchase price for the Brickell Plaza Building." OFP later dropped its objections when the purchase was reviewed by GSA's senior appraiser.

GSA headquarters directed the region to obtain a consultant to determine the maximum price GSA should pay. The consultant, a real estate investment advisor, supported the acquisition at a price of $13.9 million based on his analysis of the Miami real estate market. After receiving the report, GSA purchased Brickell Plaza for a nominal price of $13.9 million, not counting parking concessions allowed the seller.[1]

When the region sent the proposed contract to GSA headquarters for approval, the $13.9 million price was 119 percent of its independently appraised fair market value of $11.7 million, or 9 percent higher than

[1]The seller was allowed to retain parking rights to 130 spaces in the building, at market rates, for a 5-year term, renewable for 5 additional years. There is no recognition of the value of this concession in the purchase contract.

what PBS policy allows for prices in excess of appraised values.[2] The region claimed the building should have been appraised at $12.7 million because, it said, the appraiser overstated the building's operating costs, thus causing the building's value to be lower.

According to an official in GSA's Office of Acquisition Management and Contract Clearance, that office objected to the contract. It noted that the negotiated price violated the PBS policy and said the region had no authority to revise the appraised value upward based on its belief that operating expenses were overstated in the contract appraisal. If the appraisal required revision, the office said, it should be revised by the original contract appraiser or, as a minimum, by another professional appraiser.

The original contract appraiser declined to revise his appraisal. GSA's deputy administrator then directed that PBS's senior in-house appraiser should review the appraisal and revise it if justified. The in-house appraiser lowered Brickell Plaza's operating costs and raised its appraised value to $12.62 million based, he said, solely on his experience and judgment. He characterized as coincidental the fact that the purchase price of $13.9 million was 110 percent of his adjusted appraised value of $12.6 million, bringing it into compliance with PBS policy.

We obtained the services of an independent real estate consultant with an office in Miami, recommended to us by GSA as an expert appraiser, to help us determine which of GSA's four analyses of the building's value—the contract appraisal, the consultant report, the region's revision, or the PBS appraiser's revision of the contract appraisal—provided the most accurate estimate of value. He determined that the contract appraisal provided the most reasonable estimate. However, he took exception to one area of its analysis because he believes that a building larger than Brickell Plaza could have been built on the site. Because of this, the contact appraisal's cost method of value estimation is potentially flawed, in our consultant's opinion, and the value of the building might be less than was indicated by the contract appraiser. He concluded that a valuation from $11 million to $11.7 million appeared supportable from the information furnished in the contract appraisal. Furthermore, his conclusion does not support the PBS appraiser's revision of the contract appraisal upward to $12.6 million.

[2]GSA established its policy of allowing acceptance of real estate acquisition offers in amounts up to 110 percent of appraised fair market values when it purchased Judiciary Square.

Our consultant also concluded, based on his own research and files relating to comparable buildings in Miami, that the contract appraiser's determination of the building's operating costs were accurate, considering market conditions in Miami at the time the building was purchased. Therefore, the region's revised appraised value, based on its conclusion that operating cost data used by the contract appraiser were too high, is not supported by our consultant.

Our consultant disagreed with the valuation analysis made by GSA's real estate consultant because he believed an assumption used by GSA's consultant was unsupported. When our consultant attempted to recreate the economic analysis done by GSA's consultant, while warning that he could not be certain that his reconstruction was accurate, he concluded that the GSA consultant's valuation of $13.9 million for Brickell Plaza was based on the assumption the building would be used as an investment providing a tax shelter for its owners. Our consultant said the same data would produce a value estimate of $10.9 million for Brickell Plaza if it was used to provide office space as GSA planned.

Pre-purchase inspections by GSA engineers of Brickell Plaza identified the need for repairs, alterations, and life and fire safety improvements estimated to cost about $3 million. Many of the needed repairs appear to have resulted from age and wear and tear caused by previous occupancy, such as roof replacement, painting and installation of new ceiling tiles and floor coverings. Despite the inspection report, the region reported to GSA headquarters that the building was in excellent condition, requiring repairs and alterations costing only $667,530 to prepare the building for occupancy. GSA's final economic analysis of Brickell Plaza, however,[3] included costs with a value of only $595,109.[4]

The GSA headquarters official who prepared the economic analysis for submission to OMB said that he had never seen the estimate prepared by

[3]GSA must obtain OMB approval for a building purchase because OMB controls the release of purchase funds through the apportionment process. OMB Circular A-104 requires GSA to do present value cost analysis, and OMB required that purchase present value be 20 percent more favorable than lease present value before it would release purchase funds. OMB had earlier authorized GSA to spend $13 million for a purchase in Miami, but the price GSA negotiated for the building required it to go back to OMB for the additional $900,000.

[4]GSA claimed that estimated renovation costs to prepare the building for occupancy were $667,530. GSA assumed the work would be done within a year after purchase and used a 7-percent discount factor to arrive at present value cost. The present value of $667,530 discounted for 1 year at 7 percent is $623,860, but GSA's analysis showed only $595,109 as the present value cost. When we attempted to duplicate GSA's analysis, we were unable to determine how GSA arrived at the lower figure, nor were GSA officials able to show us how it was generated.

regional engineers indicating that a total of about $3.2 million would be required to renovate the building. He said that, had he been aware of the extra costs, he would have included them in the analysis which then would not have supported the purchase price. When we recalculated GSA's economic analysis after adding the additional repair and alteration costs that should have been included, the advantage of purchase outweighed leasing by only about 14 percent rather than the 20 percent that GSA policy required. After the purchase GSA's Atlanta Region awarded construction contracts totalling $3 million, very close to its pre-purchase engineering estimate, to accomplish fire safety and health upgrading, space alterations, and repairs at Brickell Plaza.

Bonneville Tower

Bonneville Tower in Las Vegas, now known as the Alan Bible Federal Building, was about 2-years-old when purchased in October 1987. It is a 7-story building with about 62,000 square feet of occupiable space. Federal agencies occupying the building include the Social Security Administration, IRS, the U.S. Attorney; the U.S. Secret Service; the Bureau of Alcohol, Tobacco, and Firearms; and U.S. Customs.

GSA paid about $8.2 million for the building and land alone. The purchase contract, with a total value of about $9.9 million, withheld $1.7 million until completion of construction work that included about $462,000 for standard finish work, about $361,000 for agency above standard finish work, and $886,000 for retrofit requirements.

Before the purchase, GSA contracted with an engineering firm to inspect Bonneville Tower to determine if it met requirements for government-owned space. However, the contract engineer did not report all problems with the building. When we toured the building in February 1988, about 4 months after it was purchased, we found cracks in floors and walls and areas where the floors were separating from walls that could allow water to enter the building. The local GSA building manager who accompanied us on the tour said he had informed GSA's San Francisco Regional Office about the cracks when he discovered them. However, when we told GSA's Region 9 officials in San Francisco what we had observed, they said they were not aware of the problems. GSA had the building reinspected and determined that repairs were needed costing about $103,000. GSA said the seller of the building has corrected the problems at his own expense.

The problem with building cracks was not discovered by GSA before the building purchase contract was signed and so could not have affected negotiations. However, pre-purchase inspection of Bonneville Tower identified deficiencies in building floor load capacities. The deficient floor load capacities were discussed with the seller, who indicated his willingness to correct the problem if required to do so; however, GSA did not require him to make corrections nor did it take action to resolve the problem until after we asked what was being done about it, more than 8 months after purchase. GSA regional engineers said that they estimated reinforcing floors to meet the contract requirement could cost about $1 million. A San Francisco Regional official told us they would determine the extent of corrections required and attempt to get the seller to make needed repairs. However, before that occurred, new problems concerning the floor loads developed.

In November 1988, as IRS was moving into its space in the building, personnel noticed the floor being occupied was flexing. Fearing a potential collapse, the agency stopped its move into the building; however, other agencies already in the building remained there. One day later, after GSA declared the building safe for occupancy, the agency resumed its move into the space.

A consulting engineer hired by GSA examined the floor that was evacuated. He concluded that the building's structural problems violated the Uniform Building Code and currently accepted design practices of the American Concrete Institute. Furthermore, he concluded that floor sagging exceeding allowable values was present in all floors of the building and that the sagging would increase when full loads of furniture and people were added to the floors. Additional testing is planned to determine the extent of the problem and what is needed to correct it. Until then, he recommended that floor loadings be reduced throughout the building. He also found that the seventh floor of the building will probably need strengthening before it can be used for a library as planned. He estimated the strengthening would cost about $435,000 and would require some re-roofing and evacuation of the sixth floor occupants to allow the needed construction. Altogether, the building, which GSA purchased for less than $10 million, may need over $1 million in repairs.

In January 1989, GSA wrote the seller of the building and informed him that significant portions of the Bonneville Tower structural design do not meet currently accepted design practice for the type of construction used in the building. GSA indicated in the letter that it believes the seller misrepresented the building's structural condition at the time of the sale and because of the condition, GSA has had to severely restrict tenant loadings in the building. Additionally, GSA listed a number of other outstanding uncorrected problems in the building, such as heating and cooling deficiencies, cracks in parking levels, and acoustical problems, that GSA believes the seller is required to correct.

Alliance and Concorde Towers

Alliance Tower in Houston, Texas, is a modern 12-story office building which GSA purchased in September 1987 for about $13.9 million. GSA also purchased the 22-story Concorde Tower in Houston in August 1987 for about $26.4 million. IRS is the principal tenant in both buildings.

Both of the buildings had been owned by banks or lending institutions as a result of foreclosures. Third parties which had managed the properties for the financial institutions or acted as sales brokers agreed to do the construction GSA required to prepare them for occupancy. The buildings were transferred from the financial institutions through the third parties to GSA, and contract documents identified the third parties as the sellers of the buildings to GSA.

In both cases, the third parties acted as agents for general contractors who did the construction and supervised the work of subcontractors. GSA sent progress payments to the third parties as first tier contractors. They received 15 percent of the construction costs for their services. Additionally, the second tier contractor—the general contractor who actually did the work—also received payments to cover his profit and overhead. GSA withheld from immediate payment that portion of the purchase price which was the estimated cost of the work required to prepare the building for occupancy until construction was complete. Based on construction costs withheld from payment, the third parties would have received payments according to the following schedule:

Table III.1: Third Party Payments

Building	Amount withheld for construction	3rd party percentage	3rd party payment[a]
Alliance Tower	$4.409 million	15	$521,848
Concorde Tower	$4.439 million	15	$569,873
Total			**$1,091,721**

[a]The amounts withheld from immediate payments included the third parties' 15 percent for overhead and profit as well as 15 percent of estimated costs for part of the construction for the general contractors. The withheld amounts included estimated costs of construction for agency special space needs which were not yet defined at the time the purchase contracts were signed.

Thus, for these two purchases, GSA paid over $1 million to avoid delays that it thought would occur if it had obtained the construction using purchase methods that GSA believed required prospectus approval and the use of competition for the construction.

We found no evidence that GSA made any cost-benefit analyses which demonstrated acceptability of the costs involved in using third parties. Furthermore, as discussed in chapter 3, the third-party arrangements circumvented the requirement in CICA and FAR to use full and open competition to contract for construction services.

A GSA official said she thought the additional costs due to the third parties were probably less than the costs of delays in occupying buildings. Furthermore, she believed that GSA would be criticized if purchased buildings remained unoccupied for the length of time required to obtain prospectus approval, competitively award construction contracts, and make the repairs and alterations needed in the buildings.

GSA's Comments and Our Response

GSA said that at both Alliance and Concorde Towers unit costs were fixed and not subject to increase as time passed and that there was integrity in the pricing of work at both projects. GSA said that our implication that the full 15 percent is an unnecessary expense to GSA is incorrect, since construction management costs, possibly more than 15 percent, would be involved if the alterations were competitively bid. GSA said that a cost/benefit analysis could be done to determine the difference between paying the 15-percent fee and the costs of obtaining the construction competitively, but that the analysis would be complex and in all likelihood would support the approach used from a cost standpoint.

We believe the only additional expense GSA would have faced was the cost of delays in occupying the building due to time needed to obtain competing bids. If competition had been used, GSA might have been able to obtain the work for less than the third party did. GSA's own costs were fixed, whether it or someone else managed the construction. For instance, GSA had to inspect the construction for quality, completeness, and adherence to specifications, whether it paid a third party manager or managed the construction itself.

Peachtree Summit

Peachtree Summit in Atlanta, Georgia, was purchased in April 1988 for a total of $68 million, of which $15.5 million was for construction, thus making the price of the building alone $52.5 million. GSA attempted to arrange the purchase through a third party when the building's seller was not willing to do the needed construction as a condition of sale. The contract originally proposed by GSA's Atlanta Region, which negotiated the purchase, was changed when the Inspector General objected to it. Subsequently, new contracts were drafted that eliminated the unacceptable provisions.

The region originally proposed to deal with a new company created by several employees of the building management company used by the seller. The new company was to provide tenant management services and be GSA's agent in dealing with the construction company selected to modify the building. The Inspector General found the financial arrangements to pay for the contract to be in possible violation of 31 U.S.C. 3324 because the arrangements appeared to be an inappropriate advance of public money, and subsequently GSA renegotiated the purchase with the seller and the new company which resulted in two separate contracts—one with the building owner for the purchase of the building, including construction, and another with the newly created company for building management services.

The two new contracts, however, still involved the use of third parties to provide construction services in circumvention of CICA and FAR. Under the purchase contract, the seller of the building did not do the construction. The seller, at GSA's request, contracted with a construction company GSA specified. The purchase contract specified the following:

- GSA was required to close under the contract even if no contractor was available before closing or the identified contractor refused to do the specified construction without modification.
- GSA was required to pay the seller $68 million at closing, of which $15.5 million was for construction to prepare the building for government occupancy. This sum would be withheld and placed in escrow.
- The seller was unconditionally and irrevocably released from liability for any claims made by the construction contractor, who would look solely to GSA for payment.

In other words, the seller agreed only to sell the building to GSA for $52.5 million. He included construction in the contract at GSA's request but accepted no responsibility for insuring contract performance. GSA accepted all risks of non-performance and the contractor was paid directly by GSA for work done.

Additionally, there was no urgent need to identify a company to do all the construction needed at the building. GSA's immediate need was for retrofit work to make the building meet requirements for handicapped accessibility, fire and life safety standards, and some standard and above standard finish work. However, most of the standard and above standard finish requirements will not be done until leases for non-government tenants in the building expire and their space is freed for occupancy by government agencies. That will occur gradually over about a 5-year period after the purchase.

The Inspector General is attempting to determine if there was a conflict of interest between the regional GSA staff and the contractor providing building management services. The IG questions why the region insisted upon retaining the contractor and did not solicit building management services on the open market. Because of the IG investigation, we did not do a detailed investigation of the contracting procedures used.

One White Flint Plaza

The White Flint building was the first procurement of a multiple building complex where GSA purchased one building and committed to leasing another yet to be constructed. GSA paid $47.5 million for the first building in November 1986, of which about $4.4 million is for the cost of construction to prepare the building for occupancy. The purchase contract included options permitting GSA to lease for 20 years or purchase a second building to be constructed adjacent to the first. Both buildings are to be occupied by the Nuclear Regulatory Commission (NRC), which will be consolidated from 10 other buildings.

GSA did not advertise to seek competitive offers for the needed leased space before awarding the lease for the second building at White Flint. GSA later decided that competition generally would have been required, but the Administrator justified the noncompetitive award of the lease of the second building under CICA's public interest exception. This exception is applicable when the agency head determines non-competitive procedures are necessary in the public interest and provides a 30-day notice to congress before the contract is awarded.

According to GSA's White Flint project manager and contracting officer, the purchased building was originally scheduled for complete occupancy by January 1988. Because of construction delays, the building was not completely occupied until April 1988. Some of the delay resulted from construction needed to increase floor loads for a library and a files storage area, which NRC required as "agency above standard finish work." The delay required GSA to extend three NRC leases in space that was to have been released at a cost that GSA calculates as over $400,000.

Construction of the second building as office space at the White Flint complex was contingent on the Montgomery County Planning Board's approval of the builder's application to change its use from a hotel, as originally approved, to an office building. However, the purchase contract for the first building required GSA to commit to leasing the second before it knew if the county would approve the change. The builder applied for an amendment to his building permit to allow construction of an office building in lieu of a hotel in February 1987, about 3 months after GSA committed to leasing the building. However, the county's concern about traffic that would be generated by the building's use as office space led to long negotiations about the size and the total number of employees that would be permitted to occupy the building. The county approved the change of use in July 1988.

The period required to obtain county approval and a building permit has delayed the expected completion date by at least 1 year and escalated the lease cost by at least $40,500 per year, or $810,000 over the life of the lease, assuming that the building will have 300,000 square feet of rentable space, and the purchase cost by at least $1.2 million, should GSA exercise its option to purchase. These costs will increase by 2.5 percent per year if there are additional delays.

Silver Spring Metro Center

GSA's purchase of a building in Silver Spring, Maryland, was part of its second acquisition of a multiple building complex acquired to consolidate an agency headquarters in the Washington metropolitan area.[1] In February 1987, GSA paid $21.87 million for one building and options to lease or purchase four additional buildings needed to consolidate the National Oceanographic and Atmospheric Administration (NOAA) from 14 separate leased and owned locations. As of May 1988, plans called for two of the buildings included in the original plan to be constructed as a single building atop a parking garage that is to be constructed at the site and leased to Montgomery County.

By undertaking this leveraged purchase arrangement, GSA faced the following problems:

- According to a senior GSA official, the proposed leases of the additional buildings required it to seek congressional approval for a lease prospectus and, if the prospectus was not approved, it would have owned a building that it did not want without the others in the development. However, GSA said other uses could have been found for the purchased building.[2]
- Because GSA believed the leases were required to be competitively obtained and it wanted to avoid agreeing to leases obtained without consideration of competition requirements as it did at White Flint, GSA competed the entire purchase proposal, seeking developers who had an initial building for sale with other buildings planned for which GSA could obtain options to lease or purchase. Of the four offers which met GSA's requirement, GSA selected two that it wished to purchase. However, OMB vetoed one of the selections because the initial building was not yet constructed. OMB reasoned that the Building Purchase Program only authorized the purchase of existing buildings, and since construction had not yet begun, the building could not be bought under the Building Purchase Program.[3] The offeror protested to us after GSA informed him it would not purchase his building and the protest was sustained at a cost to GSA of $110,592, according to GSA.

[1] Our report, Purchase and Options to Expand the Silver Spring Metro Center, (GAO/GGD-87-101BR, July 21, 1987) described problems with the purchased building and our concerns at that time about GSA planning for occupying the buildings. We noted then that GSA did not know what NOAA's space requirements were nor the costs to modify the leased buildings to meet NOAA's requirements.

[2] Prospectus requirements for individual leases as opposed to building acquisitions under the Building Purchase Program are discussed in footnote 8 on page 33.

[3] We believe GSA has the discretion under 40 U.S.C. 602 to undertake such a transaction in light of GSA's broad authority to acquire needed buildings and sites by "purchase, condemnation, donation, exchange, or otherwise."

- The contract required the buildings yet to be built to meet the same construction standards that were included in the initial building GSA purchased. However, GSA knew that NOAA would have special requirements for the other buildings demanding different construction standards but did not know exactly what those requirements were or what they would cost when it sought prospectus approval for the additional buildings it sought to lease. GSA told us that it did know NOAA's general requirements, based on its use of the buildings it then occupied, and the purchase contract identified the procedures to be used in accomplishing the planned design development and working drawing phases. GSA said project estimates and budgets were planned accordingly.
- GSA was uncertain if it could purchase all the additional buildings if it decided to do so. The builder owned only the site for the second building; the additional buildings were to be built on sites he had options to purchase and where he had an option to use air rights over a parking garage which Montgomery County planned to build on land it owned. GSA was uncertain about whether it could purchase the building to be constructed atop the garage because GSA is required to obtain fee simple title to purchased buildings and it was unclear whether GSA could acquire fee simple title to the building and garage while allowing Montgomery County use of the garage for public parking. GSA said in its comments on a draft of this report that the developer has entered into an agreement with the county to acquire full title, thus allowing title transfer under the purchase option.

As of April 1989, about 32 months after purchase, the building still had not been fully occupied by NOAA because all construction had not been completed. The second building is under construction, but its completion has been delayed about 4 months due to delays caused by county zoning considerations. Construction start dates for the remaining buildings are still in the future and we could not determine expected completion dates; however, their construction may be affected by changes that have been made to NOAA's housing plans and opposition within Montgomery County to development plans at Silver Spring.

Construction delays at the first building resulted from NOAA changing its proposed occupancy plan after the initial interior design plans were completed, causing them to be redone. NOAA's original plan to occupy the first building did not allow the release of any leased space it then occupied. The Department of Commerce's acting Inspector General[4] objected to the plan, noting that the original plan increased NOAA's housing costs

[4]NOAA is an organization under the Department of Commerce.

and detracted from good management because senior managers who would occupy the first building would be physically separated from the organizations they supervised until additional buildings in the complex were completed and occupied. As a result of his objections, NOAA changed its occupancy plan and new interior design plans had to be prepared to support it.

In commenting on a draft of this report, GSA said a master housing plan for NOAA is now in place.

Austin IRS/DVA Center

The Austin IRS/DVA Center consists of three buildings used by IRS, DVA, and the U.S. Treasury. The first building was constructed in 1963, the second in 1967, and the third in 1968. Since each was constructed, two additions were built onto the first building, in 1967 and 1974. The second building received an addition in 1972. An independent real estate appraiser estimated, as of August 1984, the fee simple value of the Austin complex to be $40 million, and the leased fee value as $31.7 million. GSA purchased it in April 1985 for $27.2 million.

GSA first considered purchasing the Austin IRS/DVA Center in 1982 when GSA's Fort Worth Region prepared a federal facility plan for the complex. The plan recommended that the complex be purchased and renovated. It estimated the costs of the recommendation as $24 million for the purchase and about $10.5 million for renovation in then current (1982) dollars, or $30 million for the purchase and $17.8 million for renovations if delayed until 1987.

The renovation costs were estimated by a GSA engineering evaluation team which inspected the property in November 1981. Their January 1982 report contained statements indicating the inspection was limited in its scope but still identified a long list of needed repairs. The report noted that

- It was difficult to foresee and project needed repairs and improvement for such a large and complicated complex and that many things could have been overlooked on the inspection.
- The buildings suffered major deficiencies in energy consumption and needed a long list of improvements, such as new roofs for two buildings and new heating, ventilating, and air conditioning equipment throughout the complex.

GSA began negotiating for the purchase in 1984 after receiving an unsolicited offer from the property's owner, according to GSA. However, GSA did not make another engineering evaluation of the complex before entering negotiations; instead, it relied upon a review of the January 1982 engineering evaluation report. The 1982 renovation cost estimates were determined to be accurate; however, the 1984 reevaluation determined that, based on lower inflation rates actually experienced than were used to project the 1982 renovation costs to 1987, the costs if deferred until 1988 would be about $14.7 million, $3.1 million less than the 1982 estimate.

In 1982, about 3 years before purchase, a fire safety and health survey identified asbestos in one building. In 1984, the regional Accident and Fire Prevention Branch assessed asbestos present in the building to be within safe exposure limits, but its review of the laboratory test results taken during the earlier survey rated the hazard level as less than the test results indicated. However, despite evidence available to GSA that at least one building contained asbestos, as a condition of purchase GSA nonetheless required the seller to certify that the buildings contained no friable asbestos, which he did.[1]

From a review of GSA's files and based on additional laboratory tests of materials taken from the buildings, GSA's Inspector General has determined that friable asbestos was present in all three buildings at the time of purchase. The IG recommended that GSA's Fort Worth Regional Administrator make a thorough cost analysis of the alternatives available to GSA for providing long-term housing for the federal tenants at the Austin complex. On the basis of that analysis, the IG said GSA should make a decision about whether to retain the buildings or acquire other space through construction, lease, purchase, or otherwise. As of June 1988, the IG was also considering recommending that GSA bring civil charges against the building's seller for his false certification that no friable asbestos was present to recover the government's cost to correct the problem.

During fiscal year 1988, GSA prepared a prospectus proposing expenditure of about $10.4 million for repairs and alterations at the Austin IRS/DVA complex. A 1982 engineering evaluation had predicted needed repairs could cost $17.8 million by 1986, although the prediction was reduced in 1985 to $14.7 million because the actual inflation rate was lower than the rate used in the 1982 report. The prospectus included about $2.7 million for asbestos abatement, which was not identified as needed in 1982, and about $900,000 for correction of fire safety deficiencies. It included roof replacement costs of about $6.8 million, although the earlier estimate had determined that roof replacements needed in 1982 would cost only about $900,000 (in 1982 dollars). However, the prospectus proposal did not include heating, ventilating, and air conditioning equipment repairs or replacements with an estimated cost in the 1982 evaluation of about $6.5 million, identified then as necessary to meet government standards for energy efficiency.

[1]According to GSA's IG, friable asbestos is defined by the Environmental Protection Agency as any asbestos-containing material that can be crumbled, pulverized, or reduced to powder by hand pressure and can therefore enter the atmosphere where it may be inhaled by humans.

Agency Comments

Administrator
General Services Administration
Washington, DC 20405

August 9, 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, "Review of the General Services Administration's (GSA) Building Purchase Program."

We are encouraged that you have found GSA demonstrated its Building Purchase Program to be an effective and economical means for acquiring quality office space to house Federal agencies in cities with a long-term Federal presence. GSA believes the overall achievements of the entire program are significant, particularly the fact that approximately 3.5 million occupiable square feet of space has been added to the Government-owned inventory at an average purchase cost of only $88 per occupiable square foot.

GSA is in complete agreement with your conclusion that the agency should continue to seek quality building purchase opportunities. We are in the process of strengthening the policies and procedures governing the program based on our experience with the 13 buildings that have been purchased and the results of your audit.

Your findings and recommendations will be especially useful in the areas of (1) improving up-front analyses of building suitability and the costs associated with preparing the building for occupancy, and (2) better defining and setting forth the circumstances under which construction services (build-out) may be negotiated as part of a purchase.

In reference to the second point, our actions to date have been driven by a desire to couple alterations with the purchase, thus expediting occupancy and obviating the need for entering the lengthy line-item budgeting/prospectus processes.

-2-

Your staff's advice during discussions of the audit, based on their consultation with GAO General Counsel, that initial alterations are not subject to the prospectus and line-item processes, even if performed by a third party, will be very helpful in clarifying our future policies and procedures in this area. We intend to seek full competition for such alterations, except when provided by the building owner, as you have suggested.

In addition to the above, detailed comments have been developed and are enclosed.

Sincerely,

Richard G. Austin
Acting Administrator

Enclosure

Major Contributors to This Report

General Government Division, Washington, D.C.

Charles C. Conway, Evaluator-in-Charge
John Parulis, Evaluator
Suzanne Bright, Evaluator
Darlene Shelton, Typist

Atlanta Regional Office, Atlanta, GA

Richard Wade, Evaluator

Dallas Regional Office, Dallas, TX

Terry Hunt, Evaluator

San Francisco Regional Office, San Francisco, CA

Arthur Davis, Evaluator

Glossary

Agency Above Standard Finish Work	Interior construction required to satisfy the special needs of a federal agency that is a tenant in GSA-controlled space, such as for a library or specially designed computer space.
Apportionment	The release of appropriated funds by the Office of Management and Budget. GSA must get apportioned funds before it may purchase a building.
Appraised Value	An estimate of a building's value determined by a person trained in analyzing a building's use, condition, and location. The appraised value is usually arrived at by interpreting and correlating three methods of value estimation: cost, income, and market.
Building's Operating Costs	Costs to provide utilities, cleaning services, maintenance, and other standard building operation requirements. Such costs are used in developing an income estimate of value in an appraisal.
Competition in Contracting Act of 1984 (CICA)	A law that revised federal procurement procedures and placed increased emphasis on the use of competition to obtain contracts providing goods and services needed by the government. Acquisition of real property generally is not covered by the act.
Cost Method of Value Estimation	A determination of value reached by estimating the cost to reproduce a building at the time the estimate is made, deducting accrued depreciation, and adding the estimate of the value of the land included with the building.
Federal Acquisition Regulation (FAR)	Procurement regulation used by federal agencies when contracting for goods and services.
Fee Simple Interest	Absolute property ownership clear of any condition or restriction.

ndependent Contract ppraisal	An appraisal obtained through competitive contract award to a private sector appraiser.
eased Fee Interest	Ownership of property encumbered by lease agreements conveying use of the property to others.
egotiation	The process GSA uses to purchase a building and reach agreement with the building's seller on its price, the modifications to be made to it to meet government requirements, and the cost of those modifications.
ccupiable Square Feet	A GSA measurement of interior building space that is available for tenant agency occupancy.
BS Policy Allowing for rices in Excess of ppraised Values	PBS policy establishing that a purchase price which is no more than 110 percent of a building's appraised value is fair and reasonable.
resent Value Cost nalysis	An analysis of the cost of alternatives available to GSA to meet federal space needs that considers all costs that will accrue over a 30-year period if the space were purchased, leased, or constructed. The present values of the accrued costs are determined by calculating what amount of money would have to be invested today to grow to the total of the accrued costs, given an interest rate which is the government's cost to borrow the money at the time the analysis is made. GSA is required to make economic analyses comparing lease and purchase by OMB Circular A-104, Evaluating Leases of Capital Assets.
rospectus Approval	Approval by the Committees on Public Works of the Senate and the House of Representatives, respectively, of a detailed description of a proposed transaction submitted by GSA. Under the Public Buildings Act of 1959, no appropriation may be made to construct, alter, purchase, or acquire (including by lease) any building which is to be used as a public building involving a total expenditure in excess of \$1.5 million without prospectus approval. (The threshold amount was increased from \$500,000 to \$1.5 million by the Public Buildings Amendments of 1988,

approved November 17, 1988). The prospectus requirement outlined here is directed to the congressional appropriations process.

Retrofit Requirements

Repairs or modifications that must be made to make buildings meet federal requirements.

Standard Finish Work

The amount of interior construction in a federal building that GSA provides as standard for any agency. Basically, it is the walls, doors, electrical outlets, telephone positions, and floor coverings that any office configuration requires. Agencies with additional needs are required to reimburse GSA for the work, which is identified as "agency above standard finish work."

Third Party

As used in this report, third parties are individuals or companies that GSA used in some purchase contracts to obtain construction to prepare the buildings for occupancy when the original sellers could not or would not provide such construction as part of the purchase.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100