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Long-Term Neglect of Federal Building Needs

Statement of
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Subcommittee on Water Resources,
Transportation, and Infrastructure
Committee on Environment and Public Works
United States Senate

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LONG-TERM NEGLECT OF FEDERAL BUILDING NEEDS

SUMMARY OF STATEMENT BY
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In March 1990 testimony before this Subcommittee, GAO stressed that (1) for nearly 2 decades the federal government has neglected the need for capital investment in modern, quality facilities to enable federal agencies to more effectively carry out their important missions; (2) billions of dollars could be saved by owning federal buildings instead of leasing them; and (3) the failure to make needed capital investment in new and existing federal buildings has serious economic, sociological, and political consequences.

In May 1991 GAO issued a report showing serious deterioration in existing federal buildings and the deferral of major repair and modernization needs identified from 3 to 15 years ago. Although the Pentagon is probably the most graphic example of neglected deterioration in existing federal buildings, it is not an isolated example.

Disinvestment in the federal buildings infrastructure is short-sighted and has serious long-term cost implications. One consequence is the federal government's steadily rising dependence on costly, leased office space. More and more revenue that could be used to finance needed capital investment is being siphoned off to pay spiraling annual lease bills--almost $1.6 billion today and projected to rise to $2 billion by 1994.

Two capital investment obstacles--funding limitations and GSA's lack of a strategic concept of its public buildings role--most directly affect GSA's ability to meet federal space needs effectively. Historically, the Federal Buildings Fund has not generated sufficient rent revenue to construct new federal buildings or satisfy all needed repairs and modernization in existing buildings. GSA's preoccupation with its direct building operational responsibilities is a direct cause of GSA's reluctance to tackle its long-term policy responsibilities. GSA has failed to develop comprehensive and prioritized plans on total space and building repair and modernization needs and associated funding requirements to guide decisionmaking.

While the Administration and Congress are taking some actions to begin addressing the building disinvestment dilemma, more needs to be done.

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to appear before you today in connection with your oversight of the General Services Administration's (GSA's) public buildings program. My testimony highlights (1) various consequences associated with the federal government's failure to invest sufficiently in the public buildings infrastructure and (2) the two key obstacles that most directly affect GSA's ability to meet federal space needs effectively--the Federal Buildings Fund's inadequacy to finance needed capital investment in new as well as existing federal buildings and GSA's lack of a strategic concept of its public buildings role.

As you may recall, our March 1990 testimony before this Subcommittee on the growing disinvestment in federal office space stressed that for nearly 2 decades the federal government has neglected the need for capital investment in modern, quality facilities to enable federal agencies to more effectively carry out their important missions. We also called to your attention a series of our reports over the past 2 years emphasizing that (1) the federal government could save billions of dollars by owning federal buildings instead of leasing them and (2) the failure to make needed capital investment in new and existing federal buildings has serious economic, sociological, and political consequences. We made several recommendations to the

Administration and Congress for a more foresighted, business-like approach for cost effectively meeting the federal government's long-term space needs. (See appendix for a listing of recent GAO reports and testimonies in the public buildings area.)

A September 1989 joint OMB/GSA study of federal building needs and financing options concluded that a cumulative Federal Buildings Fund shortfall of $4 billion (in 1989 dollars) since 1975 resulted in a significant deferral of new construction projects to meet long-term space needs and a backlog of major repair and modernization projects in existing public buildings. This study noted major challenges in maintaining over 1,600 government-owned buildings because they generally need a major system overhaul every 20 years, and more than half of them are over 40 years old. Also, many of them are monumental in design and historically significant.

Another consequence of not investing adequately in facilities has been the steadily rising dependence on costly leased office space. Between 1969 and 1989, leased office space grew by 103 percent, and the ratio of leased to owned office space rose from 39 percent to 47 percent. The costs of leased space skyrocketed from $389 million in 1975 to almost $1.6 billion today and are projected by GSA to reach $2 billion by 1994 as more old leases expire and are renewed at today's higher prices. More and more revenue that could be used to finance needed capital investment is being siphoned off to pay spiraling lease bills.

Deferrals of needed capital investment are short-sighted and have long-term cost implications. Federal agencies' operations as well as employees' morale and productivity and in some instances their health and safety are adversely affected. Higher eventual building construction or repair costs can and do result from project deferrals. Also, major infusions of appropriated funds will likely be required over the long-term to compensate for the neglect. A classic case in point is the serious deterioration and functional obsolescence of the 50-year old Pentagon and the estimated $1 billion renovation that will be required to bring it up to acceptable standards.

Although the Pentagon is probably the most graphic example of the federal government's failure to invest sufficiently in existing federal buildings, it is not an isolated example. Though their condition is not as bad as the Pentagon's, our May 1991 report on federal buildings showed that others have been neglected and gradually allowed to become deteriorated, antiquated, and in a few instances unsafe.

Nationwide, the backlog of identified building repair and modernization requirements, excluding the Pentagon, already totals at least $3 billion. About 80 percent of the federally owned buildings GSA controls are over 20 years old, and many lack the electrical and telecommunications capabilities to accommodate the personal computer and other new data and word processing technologies that federal agencies are using today. Consequently, additional repair and modernization requirements will undoubtedly be identified as federal buildings continue to age, new technologies are acquired, and federal agencies and employees continue to demand higher quality, safer working space.

Our work identified five principal obstacles that have impeded needed capital investment and increased federal ownership of office space. They are: (1) the inadequacy of the Federal Buildings Fund to finance long-term capital investment needs; (2) an inherent budget bias against increased federal ownership of space when compared to leasing; (3) the congressional project authorization (prospectus) process that encourages both GSA and Congress to think on a transactional project-by-project basis; (4) GSA's pervasive management information systems' problems; and (5) GSA's lack of a strategic concept of its role, including a long-term strategic buildings plan. Two of these obstacles--funding limitations and GSA's lack of a strategic concept of its public buildings role--most directly affect GSA's ability to meet federal space needs effectively.

Funding limitations

Established by Congress in 1972, the Federal Buildings Fund was designed to finance all the operating and capital costs associated with providing and maintaining federal facilities. GSA charges federal agencies rent that is supposed to be comparable to local commercial rents and deposits the rental receipts in the Fund. GSA then uses the revenue for building operating and capital expenses.

Historically, the Fund has not generated sufficient revenue to construct new federal buildings or accomplish all needed repairs and modernization in existing buildings. While the Fund was expected to generate at least $200 million annually for construction of new buildings, it produced an average of only $97 million annually (in constant 1988 dollars) between 1975 and 1988. A conceptual problem with the Fund is that its receipts are not related to long-term capital needs but rather to local rents. Another reason for the deficient revenues is that OMB and Congress have periodically restricted the rent GSA charges tenant agencies. Since the Fund became operational in 1975, rent restrictions have reduced its revenue by about $4 billion (in 1989 dollars). This is money that, subject to obligations limitations carried in annual appropriation acts, could have been used to finance capital investment.

The first series of rent restrictions were enacted in fiscal years 1975 through 1977 because OMB officials and some Members of Congress believed the federal rates were higher than comparable commercial rents. The second series of rent restrictions were enacted in fiscal years 1983 through 1987 because of growing concern over budget deficits. Beginning in fiscal year 1988, OMB and Congress discontinued the practice of mandating across-the-board rent restrictions. However, Congress continues to restrict the amount of rent that the Departments of Agriculture and Transportation and the Food and Drug Administration pay GSA. Our December 1989 report on the need to increase federal ownership of office space discussed the adverse effects rent restrictions have had and recommended that Congress (1) remove all restrictions on rent paid to GSA by tenant agencies and (2) not mandate any future restrictions.

The major impact of Fund rent restrictions has been on capital investment. Building operating expenses, such as utility bills and the rent on leased space, are essentially fixed costs. Remaining fund revenue is available for capital investment and allocated between new building acquisitions and repairs and alterations of existing buildings.

GSA's public buildings role

As emphasized in our November 1989 general management and May 1991 federal buildings reports, GSA lacks a strategic concept of its public buildings role. Because of its historical predilection toward operations, to the neglect of its central management functions, GSA developed a practice of thinking and planning on a short-term, reactive, and transactional project-by-project basis that persists today. GSA still lacks a comprehensive long-term plan that supports strategic thinking about the proper mix of owned and leased buildings and identifies and sets priorities for total short and long-term federal space needs as well as the most economical way of meeting them. This compromises GSA's credibility and prevents it from fulfilling its intended central management role.

GSA's lack of a strategic concept of its role also hampers congressional oversight and decision-making. Without a capital investment strategy that identifies total short and long-term space needs, relative priorities, and funding requirements, Congress cannot (1) systematically and rationally identify the most critical or most cost-beneficial projects to be constructed or renovated, (2) monitor GSA's performance in meeting overall space needs, or (3) anticipate future capital investment funding requirements. Among other things, our December 1989 report on GSA's efforts to increase federal ownership of space recommended that it prepare annual long-range facility plans that identify total space needs and the most economical means of meeting them. However, GSA has not yet done that. GSA's lack of a comprehensive capital investment strategy makes it vulnerable to the imposition of parochial demands and priorities.

Similarly, our May 1991 federal buildings report emphasized that if GSA is to provide governmentwide leadership in facilities management and effectively oversee needed building repairs and modernization it will need a comprehensive plan that (1) identifies total needs and funding requirements and (2) establishes the relative benefits and priorities of competing projects. With such a plan, GSA would be in a better position to target limited resources to buildings like the Pentagon that have major repair and modernization needs. Such a comprehensive plan would provide valuable information to Congress and OMB on total building repair and modernization needs and associated funding requirements and the cost-benefit implications of making or not making them. This would permit decisionmakers to make (1) more informed decisions about annual building capital investment funding levels and which particular projects to fund and (2) more knowledgeable tradeoffs when allocating scarce federal resources among federal buildings and all other competing activities and programs.

Some positive signs

Both the Administration and Congress are taking some actions to begin addressing the building disinvestment dilemma, and we see several positive signs. In the funding area, the Administration proposed and supported the first major federal buildings construction program in 20 years. While this proposed construction program has not been fully approved or funded, Congress (1) allowed the Federal Buildings Fund to borrow $1.9 billion from the Federal Financing Bank in fiscal year 1990 to acquire several new buildings under a lease-purchase arrangement and (2) provided $1.6 billion in appropriated funds in fiscal year 1991 to supplement Fund revenues and allow GSA to begin constructing several new buildings. Because of continuing concerns about the adequacy and viability of the existing Federal Buildings Fund financing mechanism, OMB has suggested that GSA explore modifications to the existing Fund as well as other financing options that could be more responsive to capital investment needs.

In the strategic planning area, GSA recognizes that it needs to improve its strategic focus and planning and has efforts underway to develop a 5-year capital plan. OMB has been pressing GSA in this direction. However, preliminary information available to us indicates that GSA's efforts to date in this area have not been good enough. In commenting on a draft of GSA's 5-year plan earlier this year, OMB pointed out that GSA's draft plan was flawed in than it appeared to be more of an inventory of needs that a strategic plan and did not contain certain critical data and analysis, such as the criteria for specific projects and their relative priorities. While we have not had an opportunity to review GSA's draft plan, we agree that, as a minimum, it should contain such data.

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This concludes my prepared statement, Mr. Chairman. My colleagues and I would be pleased to respond to any questions.

LIST OF RECENT GAO REPORTS AND TESTIMONIES IN THE PUBLIC BUILDINGS AREA

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

Building Purchases: GSA's Program Is Successful But Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct. 31, 1989).

General Services Administration: Sustained Attention Required To Improve Performance (GAO/GGD-90-14, Nov. 6, 1989).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991).

Public Buildings: Own or Lease? (GAO/T-GGD-89-42, Sept. 26, 1989).

The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1990).

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