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Opportunities For Cost Savings in the Public Buildings Area

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GENERAL SERVICES ADMINISTRATION:
OPPORTUNITIES FOR COST SAVINGS IN THE PUBLIC BUILDINGS AREA

SUMMARY OF STATEMENT OF
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OPERATIONS ISSUES

As the federal government's principal real estate agent, the General Services Administration (GSA) controls 276 million square feet of general purpose office, storage, and court space that is owned or leased to support agencies' missions. GSA expects to spend almost $7 billion in fiscal year 1995 to provide facilities and related services to federal agencies.

GAO's reports and testimonies over the past 6 years discussed several factors that have impeded GSA's ability to acquire and manage federal office space in a cost effective, businesslike manner. These included (1) federal budgetary constraints and budget scorekeeping rules that favor operating leases over ownership, (2) Federal Buildings Fund limitations, (3) an overall lack of strategic focus and information for sound decisionmaking, (4) ineffective governmentwide asset management and disposal policies and practices and historical building considerations, (5) the lengthy prospectus authorization process, (6) GSA's lack of building purchase authority, and (7) GSA's long-standing monopoly and traditional focus on day-to-day operations. GAO's recent follow-up work showed that these factors have continued to contribute to the government spending billions of dollars more than necessary in the long run to acquire and manage federal office space.

In recent years, GSA has become dependent on leasing to satisfy federal space needs and now spends over $2 billion annually for leased space. GAO's February 1995 report on leasing contrasted GSA's process-oriented approach with the more results-oriented approach typically used by private industry and showed how a more businesslike approach could reduce costs and improve performance.

In response to GAO's December 1992 transition series report on GSA issues, the National Performance Review, and the President's recent initiative to reduce the size and costs of government, GSA has efforts underway to reform the way it does business. GSA is reexamining its role and functions and has estimated potential cost savings in the public buildings area of $6.4 billion (current dollars) over the next 5 years.

Regardless of planned government downsizing and GSA's eventual role in the public buildings area, some of the factors identified above likely will continue to impede cost effective acquisitions and management of federal office space. Thus, GSA also will need to work closely with this committee, other congressional committees, and the Office of Management and Budget to reexamine and resolve these remaining impediments to major cost savings.

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to be here today in support of your oversight of the General Services Administration's (GSA) public buildings activities. As you requested, my testimony focuses on opportunities for cost savings in the public buildings area. Specifically, I will discuss (1) several factors that continue to impede GSA's ability to acquire and manage federal office space in the most cost-effective manner, (2) our recent report to the former Chairman of this Subcommittee on how a more businesslike approach to GSA's leasing process could reduce costs and improve performance, and (3) GSA's overall efforts to realize cost savings and improve support services to federal agencies by reforming its operations and organization.

As the attachment to my statement shows, we have reported on GSA's general management practices, management reform efforts, and various aspects of its public buildings activities in a series of reports and testimonies over the past 6 years. In response to an earlier request from this Subcommittee, we recently reexamined GSA's acquisitions and management of federal office space. Also, we are monitoring GSA's overall reform efforts. My testimony today is based on our extensive body of past work in the GSA area, ongoing work, and the recent follow-up work we did for this Subcommittee.

BACKGROUND

As the federal government's principal real estate agent, GSA acquires and manages general purpose office, storage, and court space that is owned or leased to support federal agencies' missions. This fiscal year, GSA expects to spend almost $7 billion to provide facilities and related services to federal agencies. Almost one-half of GSA's real estate portfolio of 276 million square feet of space is leased, and leasing costs are over 30 percent of GSA's total public buildings expenditures. In recent years, GSA has become increasingly dependent on leasing to satisfy federal space needs and now spends over $2 billion annually for leased space.

GSA's costs of acquiring, managing, and operating and maintaining this space, in federally owned as well as leased buildings, are financed by the Federal Buildings Fund (FBF). GSA charges federal agencies rent for the space they occupy and that rent is to be comparable to local commercial rents. GSA deposits rent receipts in the FBF and, subject to congressional limitations in annual appropriation acts, uses this money to pay capital and operating expenses.

GSA has an extensive planning process designed to determine federal office space needs and identify building acquisition, repair and renovation, and leasing requirements. Once a requirement is established, Office of Management and Budget (OMB) Circular A-94 requires that GSA make an economic analysis to identify the most cost effective option for satisfying that need. The options available include leasing, constructing or purchasing buildings, and repairing or renovating existing federal buildings. On the basis of the results of this economic analysis and other factors, GSA decides what projects to propose. GSA's funding request for public buildings projects is included in the President's budget that is submitted to Congress each January.

Total federal space requirements are now projected to decline as a result of planned government downsizing and streamlining. In April 1995, GSA announced a temporary moratorium on major lease actions pending completion of the Administration's downsizing decisions. The fiscal year 1995 rescissions bill (H.R. 1944, 104th Cong. 1st Sess.) passed by the House and now pending in the Senate would cut spending for certain approved federal building projects financed through the FBF by $631.4 million. The 7-year budget plan in the concurrent resolution on the budget for fiscal year 1996 (H. Con. Res. 67, 104th Cong. 1st Sess.) that was recently adopted by Congress provides for a 30-percent reduction in spending for federal building construction. In the future, however, federal agencies will still need office space, and acquisitions of new space and repairs and renovations of existing space will continue to be needed as leases expire, space requirements change, and federal buildings age.

FACTORS THAT CONTINUE TO IMPEDE COST EFFECTIVE ACQUISITIONS AND MANAGEMENT OF FEDERAL OFFICE SPACE

In many of our reports and testimonies on public buildings issues over the last 6 years, we discussed several factors that impeded GSA's ability to effectively acquire and manage office space. These included (1) federal budgetary constraints and budget scorekeeping rules that favor operating leases over ownership,[1] (2) FBF funding limitations, (3) an overall lack of strategic focus and information for sound decisionmaking, (4) ineffective governmentwide asset management and disposal policies and practices and historical building considerations, (5) the lengthy prospectus authorization process, (6) GSA's lack of discretionary building purchase authority, and (7) GSA's long-standing monopoly and traditional focus on day-to day operations.

As discussed later, GSA has committed to end its monopoly, improve its governmentwide policy and oversight capabilities, and continue its operational role only where it makes sense and is

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[1]We testified earlier that the full up-front recognition of outyear cost commitments entered into today, for operating leases as well as ownership, would help ensure that the government takes into account both its short-term and long-term fiscal interests. See Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings (GAO/T-AIMD-94-189, Sept. 20, 1994).

cost effective. However, our recent follow-up work for this Subcommittee on GSA's acquisitions and management of federal office space showed that the other six factors have continued to impede GSA's ability to propose and Congress' ability to determine and select the most cost effective federal housing and asset management options. As a result, the government is spending billions of dollars more than necessary in the long run to acquire and manage federal office space.

We reviewed the major construction, leasing, and building repair and renovation projects that GSA proposed to Congress in 4 of its 11 regions--San Francisco, CA; New York, NY; Washington, DC; and Dallas/Fort Worth, TX--between fiscal years 1990 and 1994 that included the results of its economic analysis of alternative options. GSA's economic analyses for 22 of the 23 construction projects it proposed showed that construction was less costly in the long run than leasing; the one exception was for a new annex that needed to be adjacent to an existing courthouse. In this case, GSA proposed construction, even though it was more costly, because the annex needed to be adjacent to the existing facility, and leasing could not satisfy this requirement. However, GSA's economic analyses for 55 (75 percent) of the 73 leases it proposed showed that federal construction would have been a less costly alternative and saved approximately $700 million (present value) over a 30-year period. Similarly, GSA's economic analyses for 14 of the 84 building renovations it proposed showed that approximately $300 million (present value) could have been saved by disposing of these 14 buildings and constructing new ones.

Our work indicated that GSA proposed the more costly leases and building renovations because one or more of the factors identified earlier impeded its ability to propose the most cost effective acquisition or asset management option. For example, GSA acknowledged that funding and budgetary limitations and its lack of building purchase authority often led it to propose leases that were more costly in the long run than federal ownership. Also, GSA emphasized that other important national policy considerations and goals, such as preserving federal buildings that are national historic landmarks, often led it to propose costly renovations that were not defensible on economic grounds.

A MORE BUSINESSLIKE LEASING APPROACH COULD REDUCE COSTS AND IMPROVE PERFORMANCE

Our February 1995 leasing report assessed the efficiency and effectiveness of GSA's traditional process-oriented approach for leasing office space and contrasted it with the more results-oriented approach typically used by private industry.[2] This report showed that GSA's highly prescriptive and inflexible leasing process did not enable it to respond quickly enough in today's dynamic commercial real estate marketplace and impeded its ability to get the best available leasing values.

We identified several characteristics of GSA's leasing process that seemed to put GSA at a distinct disadvantage in the commercial marketplace, caused it to pay more than is necessary for leased space, impeded timely space delivery, and discouraged competition for government leases. On the 34 leases we reviewed, for example, GSA took an average of 20 months to deliver office space to the requesting federal agency and had only one or two responsive offers from landlords for 24 (71 percent) of them. GSA's realty staff had limited flexibility to modify space requirements or award criteria or to bargain with landlords to take advantage of available leasing opportunities, even those they believed would be good values for the government.

In contrast, the more results-oriented approach that the private sector firms we contacted typically used was much simpler, more flexible, took considerably less time, and seemed to result in better overall leasing values. Unlike GSA, these firms generally did not establish highly prescriptive and detailed space specifications and their lease solicitations and contracts were much simpler and shorter than GSA's. Also, their leases placed more of the risk on the tenant, such as in customizing or building out the space, and this seemed to help hold down rental rates. These firms' more results-oriented approach typically enabled them to lease and occupy space in less than one third of the time it took GSA and to get leasing values they and many commercial landlords and brokers said were better than GSA's.

Accordingly, we made several recommendations to GSA that were aimed at simplifying and streamlining its leasing process and making it less costly and time consuming, more responsive to federal agencies' needs, and a better value for taxpayers. GSA generally agreed with the overall thrust of this report and our recommendations and said it will address them as part of ongoing efforts to reform its real estate program. However, GSA said that it cannot carry out leasing like a private sector tenant unless it receives an exemption from the Competition in Contracting Act (CICA) and other statutory constraints that add time and costs to its leasing process. We recognized these statutory provisions in our report and acknowledged that legislative changes may be required to make GSA's leasing process more businesslike. We recommended that GSA propose to Congress the necessary legislation to enable it to (1) test the benefits,

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[2] Federal Office Space: More Businesslike Leasing Approach Could Reduce Costs and Improve Performance (GAO/GGD-95-48).

risks, and potential federal application of private industry leasing practices or other leasing alternatives and (2) adopt those practices or alternatives tested that result in documented performance improvements, make sense, and are cost effective. GSA has already made several administrative streamlining changes in its leasing process that seem to have reduced the time it takes to complete leasing actions.

GSA'S OVERALL EFFORTS TO IMPROVE SUPPORT SERVICES AND REALIZE COST SAVINGS BY REFORMING ITS OPERATIONS AND ORGANIZATION

In response to our December 1992 transition series report on GSA issues and the National Performance Review's (NPR) September 1993 report, GSA committed to end its long-standing monopoly, separate its policy and oversight responsibilities from service delivery, restructure its Public Buildings Service and improve how it interfaces with customer agencies, and use private sector practices as benchmarks to enable it to reform the way it does business. The reforms that GSA has made and is considering appear responsive to many of the concerns we and NPR expressed in those reports. However, GSA has not yet determined its role and mission in the public buildings area or addressed the remaining impediments to cost effectiveness that were discussed earlier.

In response to the President's recent initiative to reduce the size and costs of government, GSA has accelerated and broadened its ongoing reform efforts and identified a number of potential cost-savings opportunities in various areas. GSA committed to (1) continue streamlining its current functions, (2) establish--by October 1, 1995--an agencywide Office of Policy and Oversight to enhance its ability to carry out effective governmentwide policy and oversight, and (3) identify the most cost-effective method of ownership, management, and operations for each of its assigned mission-support responsibilities or business lines.

GSA estimated potential cost savings in the public buildings area of $500 million for fiscal year 1996 and a total of $6.4 billion (current dollars) for the 5-year period ending in fiscal year 2000. The bulk of GSA's estimated cost savings--from space reductions as a result of government downsizing, reduced agency appropriations for rent, and increased efficiencies in federal building operations--will require actions by other federal agencies and/or Congress to implement.

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Before closing, Mr. Chairman, I would like to say that we are encouraged by GSA's ongoing reform efforts and believe it is headed in the right direction. Regardless of planned government downsizing and GSA's eventual role and mission in the public buildings area, however, some of the factors identified earlier likely will continue to impede cost-effective and businesslike acquisitions and management of federal office space. Thus, GSA also will need to work closely with this committee, other Senate and House committees, and OMB to reexamine and resolve these remaining impediments to major cost savings.

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

RELATED GAO PRODUCTS

General Services Administration: Opportunities For Cost Savings and Service Improvements (GAO/T-GGD-95-96, Mar. 29, 1995).

Public Buildings: GSA's Reinvention Initiatives (GAO/T-GGD-95-100, Mar. 2, 1995).

Federal Office Space: More Businesslike Leasing Approach Could Reduce Costs and Improve Performance (GAO/GGD-95-48, Feb. 27, 1995).

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Real Property Management: Reforms in Four Countries Promote Competition (GAO/GGD-94-166, Sept. 30, 1994).

Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings (GAO/T-AIMD-94-189, Sept. 20, 1994).

General Services Administration: Better Data and Oversight Needed to Improve Construction Management (GAO/GGD-94-145, June 27, 1994).

Public-Private Mix: Extent of Contracting Out for Real Property Management Services in GSA (GAO/GGD-94-126BR, May 16, 1994).

Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD-94-90BR, Feb. 11, 1994).

Management Reform: GAO's Comments on the National Performance Review's Recommendations (GAO/OCG-94-1, Dec. 3, 1993).

Public Buildings: Budget Scorekeeping Prompts Difficult Decisions (GAO/T-GGD/AIMD-94-43, Oct. 28, 1993).

Federal Judiciary Space: Long-Range Planning Process Needs Revision (GAO/T-GGD-94-18, Oct. 7, 1993 and GAO/GGD-93-132, Sept. 28, 1993).

Federal Real Property: National Performance Review Recommendations (GAO/T-GGD-93-47, Sept. 21, 1993).

Federal Real Property: Key Acquisition and Management Obstacles (GAO/T-GGD-93-42, July 27, 1993).

Federal Buildings Fund Limitations (GAO/GGD-93-34R, Apr. 5, 1993).

 ATTACHMENT

General Services Issues (GAO/OCG-93-28TR, Dec. 1992).

Government Management Issues (GAO/OCG-93-3TR, Dec. 1992).

General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992).

Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

GSA: A Central Management Agency Needing Comprehensive Congressional Oversight (GAO/T-GGD-92-3, Oct. 29, 1991).

Long-term Neglect of Federal Building Needs (GAO/T-GGD-91-64, Aug. 1, 1991).

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

General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991).

Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sept. 28, 1990).

General Services Administration: Delegated Buildings Adequately Operated But Better GSA Oversight Needed (GAO/GGD-90-76, May 15, 1990).

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

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

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

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

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

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