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General Government Division

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January 30, 1998

The Honorable Jay Kim
Chairman, Subcommittee on Public
Buildings and Economic Development
Committee on Transportation and
Infrastructure
House of Representatives

Subject: General Services Administration: Management of Silver Spring, Maryland, Metro Center I Federal Office Building

Dear Mr. Chairman:

This letter responds to your request for information on the General Services Administration's (GSA) management of the Silver Spring Metro Center I (SSMC I) federal building located in Silver Spring, Maryland. SSMC I was purchased by GSA during 1987. Since then, SSMC I has experienced floor deflection, structural, and environmental problems that have resulted in this building being partially or completely vacant for much of the time GSA has owned it. Floor deflection is an uneven floor caused by low areas on a floor's surface. Deflection greater than a specified tolerance can cause operational problems. According to a 1990 GSA structural report, the maximum deflection permitted in SSMC I was 1.1 inches.

As agreed with the Subcommittee, our objectives were to (1) determine whether GSA knew about the floor deflection problem in SSMC I prior to its purchase, and if so, ascertain GSA's rationale for purchasing SSMC I; (2) provide a chronology of SSMC I's problems and GSA's solutions to those problems since SSMC I's purchase; (3) provide information on GSA's profit/loss from SSMC I's operations since its purchase; and (4) determine the estimated interest cost the federal government would have incurred if funds used to purchase SSMC I had been borrowed.

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RESULTS

We found no evidence that GSA knew about SSMC I's floor deflection problem prior to purchasing the building in February 1987. As part of GSA's purchase process, a building evaluation was done by a team of architects and engineers from GSA's National Capital Region. The evaluation was done to determine whether SSMC I would satisfy the government's minimum standards. The evaluation report, dated September 22, 1986, did not note any floor deflection problem. GSA officials said that GSA became aware of SSMC I's deflection problem in March 1989 when a contractor could not level the furniture being installed. A GSA 1990 structural report identified floor deflection problems on portions of floors 3 through 9 of the nine-story building. GSA officials also said that the deflection problem existed prior to SSMC I's purchase but that the building evaluation failed to identify the problem.

According to GSA officials, a visual inspection was conducted as part of GSA's building evaluation. They said that the evaluation team failed to discover the deflection because (1) the deflection was scattered throughout the identified floors, which rendered it less noticeable; (2) construction supplies were stacked throughout the building, which hampered the visual inspection of large portions of the floors; and (3) extensive deflection is uncommon and thus not specifically looked for. Private sector and local government officials associated with building construction and inspection whom we interviewed said that some deflection is common to all buildings and its existence is normally assessed through a visual inspection of the building's floors. (For further information on this subject, see enclosure I.)

SSMC I has been partially or completely occupied for about 50 percent of the time from March 1988, when the National Oceanic and Atmospheric Administration (NOAA) first began to occupy portions of the building, through December 1997. Floor deflection and structural problems (insufficient floor reinforcement), which existed in 1987 when GSA purchased SSMC I, began affecting building operations during 1989. Initial studies to determine the cause of related air quality problems began in March 1990. The following is a brief summary of the key events relating to GSA's experience with SSMC I. Enclosure II contains a more detailed chronology.

- During 1987, GSA purchased SSMC I and began to construct the interior space to meet NOAA specifications.

- During 1988, NOAA began to occupy portions of SSMC I.

- During 1989, floor deflection and structural defects were discovered and corrected. The SSMC I seller minimized the deflection problem through the use of a leveling compound that was placed on the floor to smooth out imperfections.

- During 1990, NOAA employees began to complain about ailments associated with indoor air quality, which led to several studies to determine the cause of the ailments.

- During 1993, SSMC I was vacated to allow for the removal and replacement of the leveling compound used by the SSMC I seller during 1989 to mitigate the floor deflection problem. This initial leveling compound created a health hazard because it was releasing phenol into the air.[1]

- During 1994, the replacement leveling compound used in 1993 was identified as the primary source of pervasive and obnoxious odors that permeated the building.

- During 1995, GSA awarded a contract for the removal of this second leveling compound and its replacement with a third leveling compound. Related structural repairs were also made.

- During 1997, the third leveler was installed, and GSA began marketing SSMC I to prospective new federal tenants since NOAA no longer needed the space on account of agency downsizing.

According to GSA's SSMC I income statements for fiscal years 1987 through 1997, GSA incurred a loss of $1,042,745 as a result of SSMC I operations. During this period, GSA incurred about $6.2 million in repair costs associated with correcting the deflection, structural, and environmental problems. A portion of these repair costs were reported in the SSMC I income statements as either direct or general and administrative expense in the year the expense occurred. The other portion of these costs have been capitalized and are being depreciated over the life of the repair (generally 20 years). As a result, not all of GSA's repair costs that were capitalized are accounted for in the income statements to date, although GSA expects the remainder of the capitalized cost to be included in future years' depreciation expenses. We did not independently verify the revenue and cost data provided by GSA. Enclosure III shows (1) the annual profit or loss GSA incurred from SSMC I operations for fiscal years 1987 through 1997 and (2) the costs GSA incurred to correct deflection, structural, and environmental problems.

GSA's SSMC I operating costs do not include any financing costs associated with the funds used to purchase SSMC I because there is no mortgage and thus no interest expense associated with the purchase. For other GSA buildings that had an associated mortgage, the related interest cost would be included as an expense item in GSA's income statements for those buildings. SSMC I was purchased during February of 1987 for $21,870,000. If those funds had been borrowed at about that time at the

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[1]Phenol is a chemical exposure to which can result in irritation of the eyes, mucous membranes, and skin.

interest rate the federal government was then paying for 30-year treasury bonds, and the amount borrowed was amortized over that 30-year period, the federal government would have incurred about $16,451,000 in interest cost from about the date of the SSMC I purchase through December 31, 1997. Enclosure IV provides information on the estimated annual interest cost and how we calculated that cost.

The GSA SSMC I's operating costs and the estimated interest cost over the last 11 years do not represent the building's full cost or benefit to the federal government. For example, the estimates do not include the current market value of SSMC I or any potential future net benefit from continued ownership of SSMC I. As such, the estimates should not be used to judge conclusively whether the purchase of SSMC I was a cost-beneficial decision.

BACKGROUND

SSMC I was purchased through GSA's Building Purchase Program. One focus of the program was the purchase of an initial building with options to lease and purchase other buildings. GSA believed that this approach, in certain cases, made purchasing existing buildings cheaper and quicker than having the federal government construct equivalent space. In an earlier report, we stated that "the Building Purchase Program can be an effective and economical means for acquiring modern office buildings . . ." and that "GSA should continue to seek similar building purchase opportunities."[2]

The SSMC I contract included the option to lease and subsequently purchase four other buildings not yet constructed in the same contiguous area. Three of the four prospective buildings were subsequently constructed and leased to GSA. Both SSMC I and the other three buildings were used to consolidate NOAA's operations. SSMC I is a nine-story, reinforced concrete frame building with nine floors of office space and three levels of parking, including one at ground level that has some office space. SSMC I contains about 139,000 rentable square feet, including 83 parking spaces. SSMC I was purchased during February of 1987, and NOAA began to occupy portions of the building during March of 1988. On July 21, 1987, we issued a report that provided information relating to the acquisition of SSMC I. In that report, we noted "that most of the numerous concerns raised in the GSA inspection report on the building have been resolved." [3] We did not do an independent evaluation of the building but rather relied upon the evaluation done by GSA.

NOAA, which had completely occupied SSMC I by June 1990, vacated the building during August of 1993 so that GSA could take action to eliminate environmental

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[2]Building Purchases: GSA's Program Is Successful but Better Policies and Procedures Are Needed (GAO/GGD-90-05, Oct. 31, 1989).

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

problems in the building. Correcting the environmental problems kept SSMC I vacant until the latter part of 1997. As of December 1997, GSA was marketing SSMC I to other federal agencies because NOAA, during March 1996, notified GSA that it no longer needed SSMC I on account of downsizing. NOAA does, however, continue to use the SSMC I parking facilities and a minor amount of its storage space. Overall, since NOAA first began to occupy a portion of SSMC I in March of 1988 and continuing on through December 1997, a period of almost 11 years, SSMC I had been occupied either partially or completely for about 50 percent of the time. As of October 1997, all the repair work had been substantially completed, and all the floors were available to begin interior reconstruction to meet a new tenant's requirements.

SCOPE AND METHODOLOGY

To determine whether GSA knew about SSMC I's floor deflection problem prior to its purchase, we reviewed GSA's SSMC I project files relating to the purchase, including any building inspections that were conducted as part of the purchase process. We also interviewed GSA officials who were involved in the purchase or inspection, including the contracting officer and the structural engineer who was responsible for the structural inspection of SSMC I. To obtain information on what other inspections might have been done and the inspection technique generally used to identify floor deflection, we interviewed officials of Maryland's Montgomery County Division of Building Construction Services; the American Concrete Institute; and the Eastern Testing and Inspection Corporation, an independent construction testing company located in Montgomery County. The company was recommended to us by a Montgomery County official.

To provide the requested chronology, we obtained GSA and NOAA SSMC I project files. We reviewed these files to identify (1) SSMC I's various floor deflection, structural, and environmental problems and the dates these problems were discovered and (2) GSA's efforts to resolve these problems and the dates the actions were taken. We also interviewed GSA and NOAA officials to clarify information contained in those files and to obtain answers to related questions.

To provide information on SSMC I's profit/loss, we obtained copies of GSA's Federal Buildings Fund, Income Statement for Direct Operation, FR53MA, for SSMC I for fiscal years 1987 through 1997. We reviewed these reports to present SSMC I's annual income, expenses, and net profit/loss. We also obtained financial data relating to the GSA costs associated with the deflection, structural, and environmental problems. We discussed with GSA accounting officials the various elements of the income statements and SSMC I's specific costs associated with the deflection, structural, and environmental problems. We did not independently verify the financial data contained in any of the GSA financial reports.

To determine the interest cost the federal government would have incurred if the SSMC I purchase funds had been borrowed, we calculated the estimated interest

based upon the federal government's borrowing the entire purchase amount, $21,870,000, on March 1, 1987, at an annual interest rate of 7.47 percent. The borrowed amount and interest rate were then used to construct a fully amortized 30-year mortgage with monthly mortgage payments. The interest portion of each payment was used to determine the annual interest cost the federal government would have incurred. For more detailed information on how the estimated mortgage interest was calculated, see enclosure IV.

We did our work in Washington, D.C., and in Silver Spring and Rockville, MD, from September 19, 1997, to December 19, 1997, in accordance with generally accepted government auditing standards.

AGENCY COMMENTS

On January 16, 1998, we provided the Administrator of GSA with a draft of this letter for comment. On January 26 we received written comments, included in their entirety in enclosure V, from the GSA Commissioner, Public Buildings Service. He stated that GSA does not object to the facts as they are presented in the draft letter. He also stated that GSA is actively marketing SSMC I and that the building will prove to be a sound and reasonable investment of the taxpayers' dollars. GSA program officials also provided oral technical comments on a draft of this letter, which we addressed in enclosure III.

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We are sending copies of this letter to the Subcommittee's Ranking Minority Member, the Administrator of GSA, and the Administrator and Under Secretary, NOAA. Copies will also be made available to others upon request.

Major contributors to this correspondence were Gerald P. Barnes, Assistant Director; John A. Parulis, Evaluator-in-Charge; and Michael E. Horton, Evaluator. If you have any questions, please contact me at (202) 512-8387.

Sincerely yours,

Bernard L Ungar

Bernard L. Ungar
Director, Government Business
Operations Issues

Enclosures - 5

NO EVIDENCE THAT GSA KNEW ABOUT THE SSMC I FLOOR DEFLECTION PROBLEM PRIOR TO PURCHASE

Floor deflection is an uneven floor caused by low areas on a floor's surface. Deflection greater than a specified tolerance can cause operational problems. Deflection is measured by determining the distance from the floor to a set measuring point on the floor. To determine how floor deflection is found, we interviewed officials of the Montgomery County Division of Building Construction Services; Eastern Testing and Inspection Corporation, an independent construction testing company located in Montgomery County, MD; and the American Concrete Institute. Montgomery County is the local governing jurisdiction in which Silver Spring Metro Center I (SSMC I) is located. According to these officials, the usual method used to identify deflection is a visual inspection of the building's floor(s). If visual inspection reveals a potential deflection problem, further testing using measuring equipment is done. An official of the testing company noted that to properly inspect for deflection, the floor's visibility should not be obstructed by construction supplies or trash on the floor. He also said that if these materials are obstructing a clear view of the floor, the materials should be moved.

As part of the SSMC I purchase process, a building evaluation, which included an inspection of the building, was performed by a team of architects and engineers from the General Services Administration's (GSA) National Capital Region. The evaluation was done to determine whether SSMC I would satisfy the government's minimum standards. The evaluation report, dated September 22, 1986, mentioned 62 items that were referred to as deficiencies, none of which included floor deflection. We were unable to locate any meaningful documents relating to how this evaluation, which took place over 11 years ago, was conducted.

According to GSA officials we interviewed, including the structural engineer who was part of the evaluation team, the deflection problem that was reported to GSA during March 1989 would have existed when the GSA evaluation team did its prepurchase inspection of SSMC I. The problem was identified when the company that was installing the furniture could not level the furniture. The furniture adjustment legs would not reach down to the floor in certain areas. According to these GSA officials, the evaluation team did not identify the deflection problem because (1) the deflection was scattered throughout the identified floors, which rendered it less noticeable; (2) construction supplies were stacked throughout the building, which hampered the visual inspection of large portions of the floors; and (3) extensive deflection is uncommon and thus not specifically looked for.

A 1990 GSA structural report noted that floor deflection was widespread and found on portions of floors 3 through 9. The report stated that, considering the worst case, the maximum permissible deflection, as permitted by the American Concrete Institute's building code, should have been 1.1 inches. The maximum deflection found in SSMC I was 3-1/8 inches.

We also asked Montgomery County building inspection officials about their inspection process for SSMC I. According to county officials, the county relied upon the seller to perform all the required construction inspections as part of its Complex Structures program. This program was introduced because of the lack of sufficient county staff to perform all the required construction inspections throughout the county. Further, they said that, once all the required inspections were done and certified by a registered engineer as being done, the county would generally do a final inspection that would include a check for deflection. We reviewed the county's records on SSMC I, which were very limited, and found no evidence that a final county inspection was done. However, the records did contain a letter from a registered engineer stating that the SSMC I required inspections were done by the developer/seller's inspector. The letter was dated July 1, 1989, which is more than 2 years after GSA purchased SSMC I. According to county officials, a final county inspection may not have been done if SSMC I was sold to the federal government before their inspection was required. They said that the county would not have had any jurisdiction once SSMC I had been sold to the federal government.

We obtained from the county records the names of the company and the inspector that performed the floor inspections for the SSMC I developer/seller. Although we attempted to locate the company that did the structural inspections, we were unable to locate either the inspection company or the inspector.

CHRONOLOGY OF EVENTS ASSOCIATED WITH SSMC I'S DEFLECTION, STRUCTURAL, AND ENVIRONMENTAL PROBLEMS SINCE ITS PURCHASE BY GSA

1987	
February	SSMC I purchased by GSA for $21,870,000. After purchase, GSA began to construct the interior space to meet NOAA specifications.
1988	
March	NOAA occupied the 1st floor and portions of floor G-1, which consists of parking and some office space.
October	NOAA occupied floors 6 through 9 and part of 5.
1989	
March	GSA discovered floor deflection problem and also found structural defects.
November	Seller completed structural modifications and installation of floor leveler to minimize floor deflection problem.
1990	
January	NOAA employees began to complain to NOAA management about ailments–mostly irritation of the eyes, nose, and throat, and nausea and fatigue–associated with indoor air quality.
March	The first of several studies conducted to determine the cause of NOAA employee complaints was begun. Initial air quality studies did not identify an abnormally high concentration of any compound in the air. Instead, studies recommended that the building heating and air conditioning system comfort parameters be improved. Shortly thereafter, GSA and NOAA began to make operational improvements to the system.
May - June	NOAA occupied remaining floors of the building.
1992	
November	NOAA initiated another air quality study, which included additional indoor air analysis, after GSA's and NOAA's operational improvements to the building's heating and air conditioning system did not lead to cessation of NOAA employees' indoor air quality complaints.
1993	
March	Results of November 1992 indoor air quality study indicated the presence of phenol in air.

July	National Institute of Standards and Technology (NIST) determined that the floor leveler the seller installed in 1989 was the source of the phenol and recommended removal of the leveler as the most certain and practicable remedial action.
August	Building was vacated.
October	GSA awarded contract for removal of floor leveler and installation of different leveling compound. NIST tested alternative leveling compounds.
November	Replacement leveling compound was installed on floors 2 through 6 where 1989 floor leveler had been installed.
December	Carpeting was installed over new leveling compound.
1994	
February	GSA installed furniture on floors 2 through 6.
March	Pervasive and obnoxious odors were reported to permeate the building.
June	GSA hired a consultant for technical assistance with regard to current odor problem.
August	Consultant identified new floor leveler as primary source of chemical causing the odors. Preliminary results indicated that the carpet tile and ceiling were contaminated and may have been acting as secondary sources of the primary active odor component.
September	Consultant recommended removal of floor leveler.
1995	
April	Consultant issued final report on odor problem, stating that the odors were caused by a chemical reaction between the carpet system and the floor leveler. In addition, GSA and SSMC I seller reached agreement for GSA's costs associated with the structural problem identified in 1989 and the environmental problem identified in 1993. GSA's estimated that its costs were $5,057,437.23. The seller agreed to pay $939,543.79.[4]
August	After testing for new leveling compound, GSA awarded a contract for the removal and replacement of the existing leveling compound.
September	GSA stopped floor leveler removal work to determine what impact the removal work was having on the structure of the building.

[4]During fiscal year 1995, the seller paid GSA the $939,543.79, and it was included in SSMC I's income statement.

November — Architect/engineer revised drawing for structural repairs. It was unknown at this time whether the recommended leveling compound could also be used as a structural repair material. Initial structural and environmental testing was begun.

December — GSA determined that floor shoring to support the floors would be required during structural repair work.

1996

January — Contractor's floor shoring submittals were reviewed and rejected three different times by GSA.

March — NOAA notified GSA that it no longer needed the building on account of agency downsizing.

August — GSA issued a contract change order for structural repair work requiring that the floor leveler be used to make both structural and leveling repairs.

November — The contractor installed shoring.

December — Structural repairs and floor leveling work commenced.

1997

January - February — Contractor tested dual use of leveling compound to determine whether it met strength and bonding criteria. Test results on a sample repair showed that the repair did not meet strength and bonding criteria.

April — Contractor began a second round of testing after modifying the floor preparation technique used prior to applying the leveling compound. A test on a second sample repair showed repair work met criteria, and floor leveler installation was started. Had a tenant been available, GSA could have begun, as each floor was finished, to reconstruct the interior space to meet the new tenant's requirements.

October — Work was substantially completed, and all floors thus were available for interior space reconstruction.

December — GSA continued to market SSMC I to potential federal tenants. Marketing began about March/April of 1997 when GSA had a good estimate of when the building repairs would be completed.

ENCLOSURE III

GSA LOST OVER $1 MILLION IN FISCAL YEARS 1987 THROUGH 1997 AS A RESULT OF SSMC I OPERATIONS

To assist in managing its assets, GSA determines the profitability of each building in its inventory. Operating revenues and expenses are shown in GSA's report Federal Buildings Fund, Income Statement for Direct Operations, FR53MA. According to these reports for SSMC I for the time period of fiscal years 1987 through 1997, GSA incurred a cumulative loss of $1,042,745 from SSMC I operations. Table III.1 shows, by fiscal year, the income and expenses associated with SSMC I operations.

Table III.1: SSMC I Income Schedule, Fiscal Years 1987 Through 1997

Fiscal year	Income	Expenses			Profit (loss)
		Direct expense	General and administrative[a]	Depreciation	
1987	$0	$32,258	$8,574	$0	($40,832)
1988	1,921,084	364,180	83,973	601,569	871,362
1989	2,340,936	1,355,856	56,425	628,948	299,707
1990	2,206,438	579,483	54,503	636,675	935,777
1991	3,007,685	233,201	31,202	644,153	2,099,129
1992	3,240,094	(14,483)[b]	(1,814)	650,307	2,606,084
1993	2,959,566	98,000	11,799	657,025	2,192,742
1994	(356,948)[c]	880,955	2,252,175[d]	737,403	(4,227,481)
1995	(852,007)[c]	182,408	634,790	795,586	(2,464,791)
1996	(385,114)[c]	73,625	83,069	824,584	(1,366,392)
1997	220,318[e]	290,409	553,196	1,324,763	(1,948,050)
Total	**$14,302,052**	**$4,075,892**	**$3,767,892**	**$7,501,013**	**$(1,042,745)**

[a]General and administrative expenses are based upon direct expenses of a building in relation to total expenses of similar buildings within the region.

[b]Negative expense due to credit given to NOAA for payments in excess of actual costs in prior years.

[c]Negative revenue is due to rent credits given to NOAA.

[d]The formula for distributing general and administrative costs changed starting with fiscal year 1994. Under the new formula, government-owned buildings were attributed a higher portion of general and administrative costs.

[e]GSA received rent from NOAA for use of the parking garage and some storage space in SSMC I.

Source: GSA's Income Statement for Direct Operations.

In commenting on a draft of this letter, GSA officials said that, although the FR53MA income statement is prepared in accordance with generally accepted accounting principles, it is not necessarily the best measure to use when making financial decisions for a specific property. The officials said that the private sector uses a variety of measures to evaluate the financial performance of individual properties. For example, the National Association of Real Estate Investment Trusts uses the "Funds From Operations" method, which adds back to net income the gains or losses on the sale of real estate assets. According to the officials, GSA decided that it needed a similar measure to evaluate the financial performance of federal buildings. GSA worked with a private

sector asset advisor and developed a measure, which is referred to as "Property Operating Income" (POI). This measure is calculated using gross income less direct expenses and applicable general and administrative expenses less national office expenses.[5] The officials said that GSA has been using this measure since October 1997 and that the concept was used in preparing GSA's 1999 budget. In addition, the officials said that POI is not meant to supersede or replace the income statement or other reports that are prepared using generally accepted accounting principles. Rather, this measure is intended to be a decisionmaking tool that will help GSA better manage its buildings and their financial performance. As a result, the officials asked that we also include POI for SSMC I in this letter.

While we did not do any work to evaluate the appropriateness of the use of POI as a decisionmaking tool, we have calculated, and shown in table III.2 SSMC I's annual POI for fiscal years 1988 through 1997. Fiscal year 1987 was not included in this table because GSA was unable to provide, in time for inclusion in this letter, the necessary applicable general and administrative expenses. Comparatively, POI showed a higher annual operating income or a lower annual loss than was reported in the FR53MA income statements.

[5]General and administrative expenses consist of four component expenses which include national, regional, field, and federal protective offices.

Table III.2: SSMC I Property Operating Income, Fiscal Years 1988 Through 1997

Fiscal year	Income	Direct expenses	General and administrative expenses[a]	Property operating income
1988	$1,921,084	$364,180	$65,854	$1,491,050
1989	2,340,936	1,355,856	1,870	983,210
1990	2,206,438	579,483	32,144	1,594,811
1991	3,007,685	233,201	16,727	2,757,757
1992	3,240,094	(14,483)[b]	(919)	3,255,496
1993	2,959,566	98,000	6,140	2,855,426
1994	(356,948)[c]	880,955	2,207,727	(3,445,630)
1995	(852,007)[c]	182,408	498,254	(1,532,669)
1996	(385,114)[c]	73,625	50,989	(509,728)
1997	220,318[d]	290,409	437,667	(507,758)

Note: Financial data relating to fiscal year 1987 have not been included in this table because GSA was not able to provide, in time for inclusion in this letter, information concerning 1987 general and administrative expenses. Since this table reports financial data relating to 10 fiscal years, whereas table III.1 shows data relating to 11 years, we have not provided total information for this table in order to avoid possible confusion in comparing the tables.

[a]General and administrative expenses do not include national office expenses.

[b]Negative expense is due to credit given to NOAA for payments in excess of actual costs in prior years.

[c]Negative revenue is due to rent credits given to NOAA.

[d]GSA received rent from NOAA for use of the parking garage and some storage space in SSMC I.

Source: GSA's Income Statement for Direct Operations.

During fiscal years 1987 through 1997, GSA also incurred $6,188,475 in repair costs associated with correcting SSMC I's deflection, structural, and environmental problems. Table III.3 shows the various repair costs to correct each problem. A portion of these repair costs are included in the cost data provided in table III.1. These costs were reported in SSMC I's income statements as either direct or general and administrative expenses in the year the expense was incurred. The other portion of these costs, according to GSA officials, have been capitalized and are being depreciated over the life of the repair (generally 20 years). Thus, only a few years of depreciation have been included in the annual income statements. GSA expects the remainder of the capitalized cost to be included in future years' depreciation expenses. We did not independently verify the financial data provided by GSA.

Table III.3: GSA Costs Associated With Deflection, Structural, and Environmental Problems

Problem	Associated costs					Total costs
	Direct repair	Relocation	Consultants	Operations	Other tenant improvements	
Deflection and structural	$80,777	$50,675	$294,027	$118,295	$50,000	$593,774
2nd leveling compound	1,055,708	185,761	832,077	894,479	428,843	3,396,868
3rd leveling compound	1,680,961	27,675	489,197	0	0	2,197,833
Total	**$2,817,446**	**$264,111**	**$1,615,301**	**$1,012,774**	**$478,843**	**$6,188,475**

Source: GSA.

INTEREST COST TO FEDERAL GOVERNMENT IF FUNDS USED TO PURCHASE SSMC I HAD BEEN BORROWED

GSA purchased SSMC I using funds from GSA's Federal Buildings Fund. Therefore, there was neither a mortgage nor an interest cost associated with the purchase of SSMC I. As requested, we have estimated that, if the funds used to purchase SSMC I, $21,870,000, had been borrowed by the federal government, it would have incurred $16,450,749 in interest cost during the time period of March 1, 1987, through December 31, 1997. Table IV.1 shows the estimated annual and cumulative interest the federal government would have incurred during that time period. Immediately following the table is information relating to how we calculated the interest cost.

Table IV.1: Estimated Annual and Cumulative Interest Cost, Fiscal Years 1987 Through 1997

Amount borrowed: $21,870,000
Interest rate: 7.47%
Loan term: 30 years
Payment schedule: Monthly
Monthly payment: $152,469 (principal plus interest)

Fiscal year	Estimated annual interest	Cumulative interest
1987	$1,221,554[a]	$1,221,554
1988	1,615,191	2,836,745
1989	1,598,612	4,435,357
1990	1,580,752	6,016,109
1991	1,561,511	7,577,620
1992	1,540,782	9,118,402
1993	1,518,451	10,636,853
1994	1,494,393	12,131,246
1995	1,468,475	13,599,721
1996	1,440,554	15,040,275
1997	1,410,474	16,450,749

[a]Estimated interest for March through December 1987.

Source: GAO mortgage calculation.

MORTGAGE DATA ELEMENTS

Amount of and Date Purchase Funds Borrowed

SSMC I was purchased by GSA on February 17, 1987, for $21,870,000. According to GSA's financial records, $20,233,739, or about 93 percent of the purchase price, was paid to the seller during February of 1987. The remaining $1,636,261 was paid to the seller over about the next 2 years as the developer completed the building. During the time of our review, however, GSA was not able to provide us with specific information as to the actual dates on which these remaining payments were made. This information would be needed to determine when the federal government would have borrowed the funds and what the prevailing interest rate on those dates would have been. Because the information was not available, we assumed that all the purchase funds were borrowed and paid to the seller on March 1, 1987.

Interest Rate

To determine what interest rate the federal government would have paid for funds borrowed on March 1, 1987, we used the yield on 30-year Treasury bonds as shown in the Wall Street Journal for February 28, 1987 (a Friday). Thirty-year bonds were used because that is the time period generally used for real estate mortgages and the time period generally used by GSA in doing real estate economic analysis. We would therefore need the interest rate for bonds that were due in March 2017. However, no bond was due for that time period. According to the Journal's "Government Agency Issues" chart, the longest bonds were due in November 2016. The yield on those bonds was 7.47 percent. Since no bonds were due in March 2017, we used the November 2016 note interest rate in preparing our mortgage interest rate calculation.

Monthly Mortgage Payment

Using a March 1, 1987, borrowing date and an interest rate of 7.47 percent, we determined that the monthly mortgage payment for a 30-year fully amortized mortgage with a beginning balance of $21,870,000 (principal) would be $152,469. The initial payment of $152,469 would represent $136,141 in interest and $16,328 in principal reduction. For each subsequent monthly payment, the payment amount would remain the same, but the amount attributed to interest would decline and the amount towards principal reduction would increase. The principal would be paid off after the last payment was made in March 2017.

COMMENTS FROM THE GENERAL SERVICES ADMINISTRATION

U.S. GENERAL SERVICES ADMINISTRATION
Public Buildings Service

Bernard L. Ungar
Director, Government Business
Operations Issues
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Ungar:

This letter is in reference to the General Accounting Office letter to Congress, GGD-98-49BR, General Services Administration Management of Silver Spring Metro Center I. The General Services Administration does not object to the facts as they were presented in the report.

As reflected in the factual chronology included in your report, we have found viable solutions to the air quality problems. We are confident that we have taken the appropriate steps to correct the problems and we are actively marketing the building to Federal tenants. We believe that this building will prove to be a sound and reasonable investment of taxpayers' dollars.

Sincerely,

Paul Christolini

ROBERT A. PECK
Commissioner

18th and F Streets, NW, Washington, DC 20405

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