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REPORT BY THE

# Comptroller General

OF THE UNITED STATES

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## GSA Lease Prospectuses Provide A Reasonable Basis For The Congress To Approve Proposed Space Acquisitions

Lease prospectuses contain information on space acquisitions which is generally sufficient and accurate.

GSA leases for space usually complied with prospectuses as approved by the Congress. However, in several instances, the gross rent differed from the approved prospectuses.

Whether the rent approved in the prospectuses is a ceiling and whether congressional approval is required when the rent in the lease will differ from the approved amount is uncertain.

The Congress should clarify whether the approved amount can be exceeded and, if so, by how much. The Congress should also change the law to specify the circumstances when GSA should obtain Committees' approval when the lease conditions differ from the approved prospectus.

This report was requested by the Chairman and the Ranking Minority Member of the Senate Committee on Environment and Public Works.



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LCD-80-44  
APRIL 17, 1980

No. 1 of 1

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GSA Lease Prospectuses Provide a Reasonable Basis for Congress to Approve Proposed Space Acquisitions

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GSA Lease Prospectuses Provide a Reasonable Basis for Congress  
to Approve Proposed Space Acquisitions

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COMPTROLLER GENERAL OF THE UNITED STATES  
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B-198309

The Honorable Jennings Randolph  
Chairman, Committee on Environment  
and Public Works  
United States Senate

The Honorable Robert T. Stafford  
Ranking Minority Member  
Committee on Environment and  
Public Works  
United States Senate

In response to your August 8, 1979, request we examined a selected number of General Services Administration (GSA) leases to determine if the leases comply with the prospectuses as approved by the Congress. Specifically, you asked us to determine whether

- the leases conform with the terms and limits of their prospectus authorization,
- the lease amounts approved in the prospectuses constitute an authorization ceiling,
- GSA's basis for the recommendation in the prospectuses concerning availability of alternative space was valid, and
- the information in the prospectuses was accurate and sufficient to withstand full authorization and budget review.

On October 11, 1979, we responded to your request for a legal opinion on whether the prospectus approval procedure constitutes an authorization.

We believe that the lease prospectuses submitted for approval to the House Committee on Public Works and Transportation and the Senate Committee on Environment and Public Works were generally sufficient and accurate to provide a reasonable basis for the Congress to approve proposed space acquisitions. We generally agreed with GSA's recommendation that leasing was the only viable alternative. Government-owned building space is not available and very little construction is underway or planned.

We found that some gross rents (includes costs of services and utilities paid to lessor or paid directly by the Government) were negotiated above the amounts in the approved prospectuses. Our review indicated that some uncertainty exists as to whether the rent approved in the prospectuses constitutes a ceiling and whether a revised lease prospectus should be resubmitted when the gross annual rent differs from the amount approved in the prospectus. We are recommending that the Congress clarify whether the prospectus estimated annual rent amount can be exceeded and, if so, by how much. Further, we are recommending that the Congress specify when GSA should obtain Committees' approval when the lease conditions differ from the approved prospectus.

#### BACKGROUND

The Public Buildings Act of 1959 (40 U.S.C. 602 et seq.) authorizes the Administrator of General Services to acquire public buildings by purchase, condemnation, donation, or exchange. From fiscal year 1963 until fiscal year 1972, GSA needed congressional approval before it could acquire leased space in a building constructed by the lessor for agencies at a cost above \$200,000. This restriction was included as an annual provision to the appropriations act. The legislative history of that provision strongly indicates the desire of the Congress to exercise some control over the Government leasing program and to encourage construction rather than leasing of buildings to satisfy the Government's space needs.

In 1972 the Public Buildings Act of 1959 was amended to require the Administrator to obtain approval from the Public Works Committees for all leases having an average annual rent above \$500,000.

GSA interpreted average annual rent to mean "bare contract rent" or net rent. Net rent excludes the value for utilities and services. Therefore, if the value of the utilities and services included in the lease cost reduces the annual rent to below \$500,000, it is not necessary to submit a prospectus. The Comptroller General's October 26, 1972, decision (52 Comp. Gen. 230) stated that we had no objection at that time to GSA's interpretation of average annual rent.

To obtain congressional approval for acquiring space, the Administrator submits a prospectus to the Public Works Committees. Section 7(a) of the Public Buildings Act of 1959, as amended, requires a prospectus to contain such information as a brief description of the building to be constructed, altered, purchased, acquired, or the space to

be leased; the location and estimated maximum cost of the building; how and by whom building space in the area is to be used; rents and other costs currently being paid by the agencies to be housed in the building; and a statement by the Administrator of the economic and other justifications for not acquiring or purchasing a building under section 611(c). A prospectus for the construction, alteration, purchase, or acquisition of any building must include a statement that suitable Government-owned space is not available and that suitable rental space is not available at a price commensurate with that afforded through the proposed action.

GSA's Public Buildings Service is responsible for administering the leasing program and other space management functions authorized by the Federal Property and Administrative Services Act of 1949, as amended. These functions are carried out through its headquarters office in Washington, D.C., and 11 regional offices.

According to GSA records, as of November 6, 1979, GSA had administered approximately 6,900 real property leases in 11 regions involving annual net rent of about \$362 million, as shown below:

<u>Annual net rent</u>	<u>No. of leases</u>	<u>Total annual net rent</u> (millions)
Less than \$500,000	6,753	\$227.4
\$500,000 or more	<u>114</u>	<u>134.2</u>
Total	<u>6,867</u>	<u>\$361.6</u>

Included in the 114 leases with annual net rent of \$500,000 or more are about 50 active leases for which the Committees approved prospectuses. The annual net rent for these 50 leases amounted to \$55.7 million.

The other 64 leases with annual net rent of \$500,000 or more did not require prospectuses because they either were negotiated before the Public Buildings Act of 1959 was amended or were originally under \$500,000 and had incrementally increased over the years.

As of November 1979, the Committees had approved active prospectuses for about 15 percent of the total annual net rent spent by GSA for real property leases.

We examined 12 approved lease prospectuses (see app. I), some of which had been amended many times for buildings leased in GSA's region 3 or the National Capital Region. The results of our examination are discussed below.

DO THE LEASES CONFORM  
WITH THE TERMS AND LIMITS  
OF THE PROSPECTUSES AS  
APPROVED BY THE CONGRESS?

All of the prospectuses for the leases we examined contained the information required under section 7(a) of the Public Buildings Act of 1959, as amended. At the time of our review, however, the gross annual rent in seven leases exceeded (from 6 to 28 percent) the estimated maximum annual rent amount that appeared in the approved prospectuses. Tax and operating cost escalations are responsible for the gross annual rent exceeding the estimated maximum annual rent on four prospectuses. Three of these four prospectuses stated that the leases would contain escalation clauses which provided for adjustments in the gross annual rent rate. GSA's assumption of utility costs is responsible for the gross rent exceeding the estimated maximum annual rent on the other three prospectuses.

In an April 1978 GSA factsheet, GSA officials were reminded that the agency agreed with the Public Works Committees that the lease prospectuses would be expanded to include more information on escalation clauses and what they meant.

DO THE PROSPECTUSES CONSTITUTE  
AN AUTHORIZATION CEILING?

The principal issue about this question is whether GSA is constrained to negotiate a lease within the limitation of the estimated maximum annual rent included in the approved prospectus.

A GSA Office of the Inspector General, Office of Audits, report dated January 23, 1980, stated:

"It is our understanding that the Committee's interpretation of a prospectus is that once approved it represents a valid and reliable authorizing document. One that can be reviewed after implementation to ascertain conformance with the terms and limits of that authorization. The prospectus cannot be substantially changed by means of amending the lease nor can the annual rental cost as indicated in the prospectus be exceeded. GSA interprets the Congressional approval

of a prospectus as an authorizing document which limits only the amount to be spent for the original lease. The original lease may be amended numerous times without Congressional approval provided that the net rent increase for each amendment does not exceed \$500,000."

Comptroller General Opinion B-95136, dated October 11, 1979, stated that "\* \* \* approval of a lease prospectus by the statutorily designated committees constitutes the authorization GSA needs to enter into a lease with an annual rental in excess of \$500,000." In addition, the opinion stated that the lease should conform to the space description, location, and estimated cost set forth in the approved prospectus, and significant deviations would require the Committees' further approval.

GSA officials state that no GSA directions, orders, or regulations instruct them as to what should be done if gross annual rent exceeds the estimated maximum annual rent in the approved prospectus. Consequently, GSA did not submit for Committees' further approval the seven leases which contained gross annual rents exceeding the estimated maximum annual rents on the approved prospectuses.

The Public Buildings Act, as amended, is quite explicit about estimated maximum construction cost exceeding the estimated cost in an approved alteration or construction prospectus. Section 7(b) of the act states that the estimated maximum cost of a project on a construction or alteration prospectus may be increased up to 10 percent from the date each prospectus is sent to the Congress for approval. On the basis of this section, GSA would seek Committees' approval if the approved prospectus amount for a construction or alteration project was exceeded by 10 percent.

Since significant deviations from the approved lease prospectus would require further congressional approval, we believe the Committees should provide GSA with guidance on when a proposed deviation should be submitted to the Committees for approval. However, if it is intended that the amount approved in the prospectus be interpreted as constituting a ceiling on rent under the lease, then the law should be amended to reflect this.

Your Committee has introduced Senate bill 2080, which would repeal the Public Buildings Act of 1959, as amended, and make a number of revisions in the way GSA conducts its public buildings program. Among other things, the bill requires emphasis on, and disclosure of, GSA's long-range planning for its building program. We furnished comments on the bill at hearings held on January 29, 1980.

IS GSA'S RECOMMENDATION TO  
LEASE VALID WHEN COMPARED  
WITH AVAILABILITY OF  
ALTERNATIVE SPACE?

GSA's recommendation to lease was valid when compared with other alternative space acquisitions available at the time.

Most of the 12 prospectuses we reviewed stated that leasing was the only viable alternative because of the lack of available Government-owned space. In most of its prospectuses, GSA stated that because no viable alternative to leasing existed, a present value analysis was not included. In April 1978, however, GSA decided to explain the present value analysis in greater detail in the prospectuses. In a September 28, 1978, hearing, the Subcommittee on Public Buildings and Grounds of the House Committee on Public Works and Transportation requested GSA to furnish a thorough discussion of all viable housing alternatives, including but not limited to

- use of Government-owned building(s);
- acquisition of historically, architecturally, or culturally significant buildings;
- acquisition of leased space;
- retention of existing leased space; or
- construction of a Government-owned building.

Office of Management and Budget Circular A-104 prescribes procedures, assumptions, and format to be used to prepare a present value analysis for a proposed action to either lease or purchase general-purpose real property.

Currently, GSA is providing a present value analysis in the prospectuses submitted to the Congress. We generally agreed with GSA's statement that no viable alternative to leasing existed for most of these prospectuses because Government-owned building space was not available nor was any construction underway or planned.

As a practical matter, even if alternatives, such as construction of a Government-owned building, were less costly and more advantageous, such construction would not alleviate the need to lease during the next 5 years because of the leadtime required before a building can be approved, funded, and constructed.

Since 1975, the year the Federal Buildings Fund began operations, GSA funding has averaged only about \$50 million a year for meeting new construction. This level of funding is not sufficient to cause a substantial reduction in leased space. As further evidence of the impact the shortage of construction funds has on leasing, GSA-leased space increased from 44.6 million square feet in fiscal year 1966 to 93.3 million in fiscal year 1979. Government-owned space has not increased appreciably.

Commenting on the increased amount of leased space without corresponding increases in appropriations for Federal construction, the Administrator of General Services, in a February 9, 1979, letter to the Chairman, House Committee on Government Operations, stated

"\* \* \* that we currently have projects [construction] approved or pending totaling \$281 million, with \$383 million worth of potential projects, it is clear that the only available means of providing for necessary requirements is through leasing. \* \* \*"

We believe the recommendation in the prospectuses to lease is primarily based on the lack of feasible alternatives available to GSA. We also believe that a present value analysis is appropriate for evaluating the comparative cost of investment alternatives, provided that the underlying assumptions and criteria are realistic and are applied objectively and consistently. Like any other analytical technique, however, a present value analysis can be adjusted by varying assumptions or criteria to support a particular course of action. In summary, GSA has relied increasingly on leasing rather than on Federal construction and ownership to provide space for Federal agencies.

IS THE INFORMATION UPON WHICH THE COMMITTEES  
ARE ASKED TO ACT ACCURATE AND SUFFICIENT TO  
WITHSTAND THE FULL AUTHORIZATION AND BUDGET REVIEW?

The prospectuses we reviewed contained some inaccurate information, but we believe the information was generally sufficient and accurate to provide a reasonable basis for the Congress to approve proposed space acquisitions.

We found inaccurate information in 5 of the 12 prospectuses. However, the inaccuracies were minor. Accurate information was available at the time the prospectuses were submitted but was not included in the prospectuses. For example:

--Two prospectuses failed to disclose that the Government intended to pay all electric costs.

--Two prospectuses overstated the square footage rate.

--One prospectus understated the total square footage to be leased.

We could not determine from the lease files reviewed whether the omission and the inaccurate statements were intentional or whether they were an oversight.

#### CONCLUSION

Our review has indicated that some uncertainty exists as to whether the estimated maximum annual rent shown in the approved lease prospectuses constitutes a ceiling and whether a revised lease prospectus should be resubmitted to the Committees for further consideration when the gross annual rent differs from the approved amount in the prospectus.

On the other hand, the Congress is quite explicit in the Public Buildings Act of 1959, as amended, regarding what GSA is expected to do when the cost of a construction or alteration project exceeds the estimated maximum amount by 10 percent. Comptroller General Opinion B-95136, dated October 11, 1979, stated that the lease should conform to the prospectus, and significant deviations would require the Committees' approval. Since there is nothing in the law which aids in determining when a deviation is to be considered significant, the Committees should provide GSA with guidance on when a proposed deviation should be submitted to the Committees for approval. However, if it is intended that the amount approved in the prospectus be interpreted as a ceiling on the rent under the lease, then the law should be amended to reflect this.

The proposed authorization and planning procedure in Senate bill 2080 is an improvement over the current prospectus authorization procedure. Under section 802 of the bill, no appropriation could be obligated for any lease or lease renewal unless authorized by the Congress. Furthermore, lease or lease renewals would be individually authorized on an annual basis. Currently, lease prospectuses are approved individually on a piece-meal basis. In addition, section 705(b) of the bill prohibits GSA from negotiating a rent which exceeds 105 percent of the average commercial rates and charges for space and services of nearest comparable quality. We believe these provisions of the Senate bill, if enacted into law, should provide a limitation on the amount GSA can expend for leased space, services, and utilities.

RECOMMENDATION

We recommend that if Senate bill 2080 is not enacted into law, the Congress (1) clarify whether the approved lease prospectus amount can be exceeded and, if so, by how much and (2) change the law to specify the circumstances when GSA should obtain Committees' approval when lease conditions differ from the approved prospectus.

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As requested by your office, we did not obtain written agency comments on the matters discussed in this report.

As arranged with your office, copies of this report are being sent to interested committees and agencies and will be available to other parties upon request.

Sincerely yours,



Comptroller General  
of the United States

(945181)

SCHEDULE OF SELECTED APPROVED LEASE

PROSPECTUSES AND ORIGINAL LEASE

DATA FOR 12 GSA-LEASED BUILDINGS

<u>Name of leased building</u>	<u>Data in prospectus</u>			<u>Data in original lease</u>		
	<u>Square footage (note a)</u>	<u>Estimated maximum cost</u>	<u>Estimated cost per sq. ft.</u>	<u>New usable square footage</u>	<u>Estimated gross annual rent to Government</u>	<u>Cost per sq. ft.</u>
Paca Pratt Building Baltimore, Maryland	191,500	\$ 900,000	\$ 4.70	191,500	\$ 900,000	\$ 4.70
Brown Building Washington, D.C.	171,800	1,067,500	6.21	176,782	1,054,924	5.97
2025 M Street Washington, D.C.	119,359	1,541,731	12.92	78,850	1,010,504	12.82
Universal Building Washington, D.C.	127,000	793,750	6.25	129,912	791,164	6.09
Universal North Building Washington, D.C.	201,070	1,256,250	6.25	200,993	1,207,957	6.01
1750 Pennsylvania Avenue Building Washington, D.C.	114,962	791,000	6.88	116,422	756,813	6.50
Penn 17 Building Washington, D.C.	138,934	970,000	6.98	114,171	894,496	6.34
1111 20th Street Building Washington, D.C.	136,428	840,000	6.16	134,428	840,000	6.16
Imperial Building Washington, D.C.	149,967	993,800	6.63	146,195	933,590	6.39
Thomas Circle South Building Washington, D.C.	120,010	892,679	7.44	120,192	936,968	7.80
Webb Building Arlington, Virginia	140,926	884,000	6.27	140,926	920,364	6.53
Pomponid Plaza Building Arlington, Virginia	209,330	1,592,419	7.61	208,562	1,529,274	7.33

a/We used the term "square footage" because the types of square footage in the prospectuses are not consistent and are stated either as net usable, occupiable, or area square footage.

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