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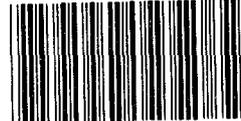
COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

RELEASED

B-165511

JUNE 20, 1979

The Honorable David Pryor
Chairman, Subcommittee on Civil Service
and General Services
Committee on Governmental Affairs
United States Senate



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Dear Mr. Chairman:

This is in response to your January 26, 1979, letter requesting us to evaluate the procedures used to estimate the value of Air Force Plant No. 3, located at Tulsa, Oklahoma. The reason for your request was the large difference between the values of the plant determined by the General Services Administration and the Tulsa Airport Authority. The Airport Authority is interested in the plant because the plant is located next to the airport.

The plant consists of over 300 acres of land and 79 structures totaling more than 2.7 million square feet. The McDonnell-Douglas Corporation currently operates the plant as a Government-owned, contractor-operated facility under a lease from the Air Force.

The Air Force reported the plant excess in October 1972, with the condition that General Services negotiate a sale to McDonnell-Douglas for continued use as an aircraft fabrication and assembly facility. In accordance with the National Industrial Reserve Act of 1948, the Air Force specified that, as a condition of sale, the plant's existing capability for defense production be preserved for 5 years from the date title to the property is transferred to the contractor. A further condition was that utilization of the property by the purchaser not jeopardize the capability of the facility to meet defense production requirements during that period.

In February 1973 General Services contracted with an independent appraisal firm to provide a valuation of the plant and all related Government-owned personal property. The firm valued the property as of May 1, 1973; December 1, 1974; and September 1, 1977. The firm stated that as of

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September 1, 1977, the value of the entire plant for negotiated sale to McDonnell-Douglas was \$10.4 million. In a September 8, 1978, letter, the firm stated that its conclusions on the value would not change substantially from September 1, 1977, to September 1, 1978.

The Airport Authority estimated the value of the plant and special tooling to be over \$107.1 million. The Airport Authority made its valuation as of August 14, 1978, from data furnished by two Tulsa real estate appraisers, a civil structural engineer, and representatives from two aerospace firms.

Considering the restrictions the Air Force placed on the sale of the plant, we believe the procedures General Services' appraiser used were more appropriate. Details of procedures used by the Airport Authority and General Services' appraiser are included in the enclosure.

As agreed with your office, we examined the procedures used by the Tulsa Airport Authority and by General Services' appraiser to identify the reasons for the major differences in the estimated values for the plant and to evaluate the reasonableness of the procedures as a basis for valuing the plant. Because of the high degree of professional judgment involved in establishing a value for property such as this, our review was not designed to estimate the value of the plant. Therefore, we do not express an opinion on the price General Services should obtain in a negotiated sale to McDonnell-Douglas. During our review, however, we noted some issues concerning the value of the property which General Services and the Air Force need to consider further.

We are recommending, therefore, that the Administrator of General Services and the Secretary of the Air Force make sure that the Government receives adequate compensation for

--the value of equipment furnished by the Government since 1974, because this equipment was excluded from the appraiser's valuation at the request of General Services;

--the value of all capital rehabilitation improvements to plant facilities not previously included in the appraiser's valuation; and

--the value of parking aprons because McDonnell-Douglas says they are being used extensively but the General Services' appraiser's report does not reflect this use.

In addition, we recommend that the Administrator of General Services and the Secretary of the Air Force

--establish the appropriate acreage to be sold in view of the differences reported by the Airport Authority, General Services appraiser, and the Tulsa County Assessor's Office and

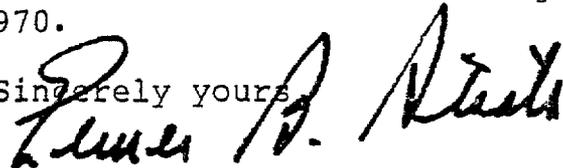
--reevaluate the appropriateness of the bulk discount taken on equipment due to its subjective nature.

This report contains information from appraisal reports prepared for General Services' use as a basis for negotiating the sale of the plant. Therefore, the Government's position might be adversely affected if this report or parts of it were released or divulged to persons outside the Government prior to the outcome of the negotiations.

We have discussed our recommendations with General Services and Air Force representatives. Their oral comments are summarized in enclosure II. However, at your request, we did not provide a draft of this report to the parties involved to obtain their written comments.

As arranged with your office, we are sending copies of this report to Senators Ted Stevens and James Sasser. We plan no further distribution at this time. Unless you agree to an earlier release, we plan to send copies to the Administrator of General Services and the Secretary of the Air Force 30 days after the date of this report so that they can comply with the requirements of section 236 of the Legislative Reorganization Act of 1970.

Sincerely yours,



Comptroller General
of the United States

Enclosures - 2

COMPARISON OF PROCEDURESUSED BY GSA'S APPRAISER AND THE TULSA AIRPORT AUTHORITYTO PLACE A VALUE ON AIR FORCE PLANT NO. 3

In February 1973 the General Services Administration (GSA) contracted with an independent appraisal firm to provide a valuation of Air Force Plant No. 3 and all related Government-owned personal property. The employees of the firm making the appraisal were members of the American Society of Appraisers, the Society for Evaluators and Auctioneers, or the American Institute of Real Estate Appraisers. One purpose of the valuation was to obtain the marketable measure of the value of real and personal property to the present user, it being understood that the personal property is an integral part of an established, operating, manufacturing plant, in providing usefulness, service, and profit to the operator, McDonnell-Douglas.

The Tulsa Airport Authority based its valuation of the plant on information furnished by a civil structural engineer, representatives from two aerospace firms, and two appraisers who were members of the American Institute of Real Estate Appraisers, the Society of Real Estate Appraisers, or the National Association of Real Estate Boards.

We reviewed the valuation reports issued by both parties, the procedures used by each to value the plant, and supporting documentation. We also had discussions with representatives from the following organizations:

- General Services Administration.
- Department of the Air Force.
- Federal Aviation Administration.
- Real estate appraisal firm engaged by GSA.
- Tulsa Airport Authority.
- Real estate appraisers engaged by the airport.
- McDonnell-Douglas Corporation.
- Tulsa City and County Government Offices.

The following schedule compares the GSA appraiser's estimate with the Airport Authority's estimate.

	<u>Airport Authority's estimate</u>	<u>GSA appraiser's estimate</u>	<u>Difference</u>
Land	\$ 11,600,000	\$ 2,320,000	\$ 9,280,000
Buildings	74,538,000	4,675,000	69,863,000
Personal property	15,000,000	3,409,000	11,591,000
Parking aprons	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>
Total	<u>\$107,138,000</u>	<u>\$10,404,000</u>	<u>\$96,734,000</u>

LAND

The difference of \$9,280,000 in the estimated value of the land resulted from differences in the sizes of land tracts used for comparative purposes to value the plant land and in the total acreage used to compute the estimates. The Airport Authority's land estimate was based on 332 acres valued at \$34,940 per acre. The GSA appraiser's estimate was based on 322 acres valued at \$7,200 per acre.

Value per acre

According to "The Appraisal of Real Estate," a textbook prepared by the American Institute of Real Estate Appraisers:

"In making comparisons, the appraiser identifies similarities and dissimilarities. The most dependable conclusions are based on comparisons of the most similar factors and conditions. The appraiser considers the extent of the dissimilarities and estimates the amount these add to, or subtract from, the known price of the sale property in order to obtain an adjusted figure reflecting the probable sale price of the property being appraised."

GSA's appraiser based its land valuation on 10 transactions that ranged in size from 52 to 540 acres. According to the GSA appraiser's report, size comparability was considered in valuing the plant land, and its valuation included adjustments considered appropriate for size dissimilarities.

Two appraisers in the Tulsa area, one engaged by the Airport Authority, stated that larger properties tend to sell for less per square foot than smaller properties and a downward adjustment per acre is needed when obtaining comparability from smaller tracts to larger ones.

The Airport Authority's estimate was based on Tulsa land appraisal and sales data furnished by two appraisers from the Tulsa area. The appraisal and sales data were based on 16 land tracts ranging from 0.94 acres to 20 acres. However, information furnished by the Airport Authority showed that its land valuation was not adjusted for differences in the sizes of the property used to value the plant as compared to the size of the plant land. Thus, the Airport Authority apparently omitted a step needed to obtain a properly adjusted figure reflecting the probable sale price of the plant land, which must be sold as one tract.

Number of acres

In addition to a 10-acre difference in the two valuations, information furnished by the Tulsa County Assessor's Office shows a third determination of the number of acres. The Airport Authority originally determined that there were 332 acres. However, as of May 17, 1979, the Airport Authority says there are 337 acres--343 on the original deed less 6 subject to right-of-ways. GSA's appraiser similarly determined there were 332 acres but stated that the City of Tulsa had used about 10 acres to improve roads in the area, resulting in only 322 acres available for sale to McDonnell-Douglas. According to the Tulsa County Assessor's Office, the Federal Government owns 343 acres. Therefore, the number of acres GSA sells to McDonnell-Douglas should be firmly established before final negotiations.

BUILDINGS

The Airport Authority's valuation of buildings exceeded the GSA appraiser's valuation by \$69,863,000 due to the different methods used in arriving at both the rates per square foot and the number of square feet of buildings space. GSA's appraiser computed a value using square foot rates of \$1.88 for major structures and \$0.41 for minor structures. The Airport Authority computed a value using square foot rates of \$25 for the three main assembly buildings and \$20 for hangars, storage, and maintenance facilities. Both approaches are discussed in more detail below. The total square feet

for buildings used by GSA's appraiser was 2,783,705 as compared to 3,014,000 used by the Airport Authority.

To illustrate that GSA's appraised value for the buildings was too low, the Airport Authority cited approximately \$11 million in addition to its estimate of the value of the structures as part of a capital rehabilitation program which revitalized the structures. GSA's appraiser recognized the \$11 million rehabilitation program in its report, but stated that much of the expenditures for this program were used to repair or complete maintenance projects on World War II vintage improvements. The reports showed that most of the projects were completed or were in process before May 1, 1973, and were in fact considered in the appraiser's first report as of that date. GSA's appraiser inspected the entire facilities again in August 1977. According to the Air Force, any repairs made after the latest valuation by GSA's appraiser, which would not be reflected in the GSA price to McDonnell-Douglas, are being recorded by the Air Force. According to the Air Force, the cost of these repairs will be reimbursed to the U.S. Treasury by McDonnell-Douglas once the sale is consummated.

Value per square foot

There are several approaches in determining building values. The appraiser selects the approach most suitable. According to the American Institute of Real Estate Appraisers' textbook, the "market approach" may provide a critical value indication in the appraisal of older properties for which accrued depreciation is extensive and for which there is no clearly identified rental market. Also, the market approach provides meaningful value indicators when adequate market data is available and when the relative advantages and deficiencies of the appraised property and the comparative sales property are not too extensive and have been correctly weighed.

GSA's appraiser used the market approach as the basis for the appraised value of the Air Force plant buildings. GSA's appraiser inspected the plant facilities and analyzed information on national sales of 44 properties for comparison with the Air Force plant property. Adjustments were made for such factors as date of sale, size, location, characteristics and condition of improvements, and special conditions of the sale. GSA's appraiser estimated that all elements of depreciation (physical deterioration, functional obsolescence, and economic

obsolescence) amounted to 95 percent of reproduction cost new (or 85 percent of acquisition cost) as of September 1, 1977. In addition, the GSA appraiser's report shows that (1) a substantial amount of good market data is available and (2) comparative sales properties have been adjusted for various factors.

The Airport Authority determined building values using the "cost approach." The main assembly buildings' values were based on data furnished by a civil structural engineer, who estimated the cost per square foot to build an airport terminal less 58 percent depreciation. The Airport Authority valued hangars, storage, and maintenance buildings on the basis of building a bare hangar in June 1977. The Airport director said the plant facilities were not inspected.

According to the American Institute of Real Estate Appraisers' textbook, the cost approach produces a significant indication of value when the building is new or nearly new, and by itself may not be so conclusive when accrued depreciation is substantial. Since the Air Force plant was designed and built by the Government in 1942 and substantial depreciation has accrued, the cost approach has limited value in appraising the Air Force plant buildings. The market approach, used by the GSA appraiser, seems to be more appropriate under the circumstances.

Number of square feet

The difference in total square feet used by the Airport Authority and GSA's appraiser was 230,695 square feet. According to GSA's appraiser, the buildings' areas measured 2,783,705 square feet, whereas the Airport Authority made no measurements and relied on information provided them, which showed the buildings' areas to be 3,014,400 square feet. GSA's appraiser determined through measurement that major structures are 2,409,977 square feet and minor structures are 373,728 square feet. The Airport Authority, however, included 2,850,000 square feet for the three main assembly buildings and 164,400 square feet for hangars, storage, and maintenance structures.

Air Force records show that the total covered space is 2,851,561 square feet--about 68,000 square feet more than GSA's basis and about 163,000 square feet less than the Airport Authority's basis.

PERSONAL PROPERTY

The Airport Authority's appraisal of personal property was based on estimates of the value of special tooling in the plant made by representatives from two aerospace firms who visited the plant in 1975. According to the airport director, the estimates were reported verbally, giving a value for special tooling between \$10 million and \$20 million. Thus, the Airport Authority's estimate included \$15 million for the special tooling.

GSA's appraiser physically inspected the major machinery and equipment, and verified the existence and noted the manner of installation and physical conditions for each item or group of items. Discussions were held with plant personnel to determine approximate use of each major machine item, maintenance procedures followed, and other factors. The above procedures were used in valuing all items originally costing over \$1,000. A sampling of other equipment was made. Cost estimates were then prepared on an item or group basis.

For a major portion of the machinery and equipment, GSA's appraiser also researched and analyzed the current market. GSA's appraiser valued the personal property at \$3,963,000 less a bulk discount of \$554,000, resulting in a net amount of \$3,409,000. At GSA's request, this amount excluded Government personal property which may have been added to the plant asset inventory since December 1, 1974. The Air Force has agreed to determine the value of the fixed assets added from December 1, 1974, until the date of the sale and to obtain reimbursement for these assets from McDonnell-Douglas.

The appraiser's latest report stated that the bulk discount is subjective. It represents equipment with original cost of less than \$1,000 for which there is no foreseeable future need due to a reduction in the number of plant personnel from its peak of 24,000 during World War II to about 2,000 at September 1, 1977. We noted, however, that in its two previous reports, GSA's appraiser showed a plant peak level of 12,000. According to a representative of McDonnell-Douglas, the peak employment was about 24,000. GSA's appraiser said the amount of bulk discount in its latest report should remain the same regardless of whether the peak employment was 12,000 or 24,000.

In our opinion, the Airport Authority's valuation is not supported by an appropriate factual basis for expressing an opinion on the value of personal property at the plant. The GSA appraiser's approach was, in our opinion, more appropriate. However, we believe GSA and the Air Force should (1) make sure the Government receives adequate compensation for equipment added to the asset inventory after 1974 and (2) reevaluate the appropriateness of the bulk discount.

PARKING APRONS

The Airport Authority included as part of its valuation 300,000 square yards of parking aprons valued at \$20 per square yard for a total of \$6 million. The \$20 per square yard was based on the cost to build a taxi way in 1976 with construction similar to parking aprons. According to the airport director, these parking aprons are part of the acreage on which the plant is located. Under the land category, the Airport Authority valued the property as bare land. The Airport Authority, therefore, valued the parking aprons as improvements on the land.

GSA's appraiser said the parking aprons were not being used by McDonnell-Douglas at the time of its valuation and must be viewed as part of the whole property and valued accordingly. As a result, GSA's appraisal attached no special value to parking aprons. Instead, GSA's appraiser valued the parking aprons as part of yard improvements and included such value in its buildings valuation.

According to the general manager of McDonnell-Douglas' Tulsa facilities, the parking aprons are used extensively, and he expects this use to increase if new contracts are awarded. Since the GSA's appraiser placed no special value on parking aprons and McDonnell-Douglas is using the aprons extensively, GSA needs to reconsider the aprons' value.

AGENCY COMMENTS ON RECOMMENDATIONS

AS OF MAY 25, 1979

Recommendation

Comments by General Services'
Office of Real Property

Comments by Air Force's
Contract Management Division

Receive adequate compensation for the value of equipment furnished by the Government since 1974, because this equipment was excluded from the appraiser's valuation at the request of General Services.

Equipment furnished by the Air Force since 1974 has not been excessed by the Air Force and is not being sold. Therefore, General Services cannot receive compensation for this equipment.

The only personal property furnished McDonnell-Douglas since 1974 was special tooling and test equipment. This property will remain in Air Force inventory and will not be sold.

Receive adequate compensation for the value of all capital rehabilitation improvements to plant facilities not previously included in the appraiser's valuation.

A cutoff date for considering capital rehabilitation improvements was used to avoid delays in providing the appraisal report.

In accordance with Air Force Regulation 78-22, all capital repairs to property made after the appraisal are covered by a buy-back agreement. McDonnell-Douglas will reimburse the U.S. Treasury for these improvements after the sale is completed.

Receive adequate compensation for the value of parking aprons because McDonnell-Douglas says they are being used extensively but the General Services appraiser's report does not reflect this use.

General Services will review this matter with the Air Force.

Use of Air Force-owned parking aprons is limited. However, much use is made of Tulsa Airport Authority land, which has been leased for approximately 30 years for parking purposes.

Establish the appropriate acreage to be sold in view of the differences reported by the Airport Authority, General Services' appraiser, and the Tulsa County Assessor's Office.

Acreage subjected to easements and used for streets should not be valued. General Services will discuss this matter with the Air Force since it excessed only 332 acres.

The Air Force will ask the Corps of Engineers to contact the County Assessor's Office to resolve any differences on acreage.

Reevaluate the appropriateness of the bulk discount taken on equipment due to its subjective nature.

The General Services appraiser's opinion has been accepted by the General Services. General Services will advise its appraiser that the Air Force told McDonnell-Douglas to dispose of personal property not wanted prior to the inventory listing for the sale.

The Air Force told McDonnell-Douglas to dispose of personal property not wanted prior to the submission of a personal property inventory listing to GSA as excess. From prior experience with sales of this type of property by the Defense Logistics Agency, 1/2 to 1 percent of acquisition cost is a reasonable return. Therefore, the price referred to in the appraisal would appear to be more than reasonable.