



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

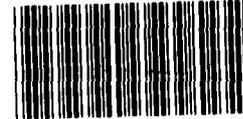
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PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-204377

AUGUST 21, 1981

The Honorable David A. Stockman
Director, Office of Management
and Budget



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Dear Mr. Stockman:

Subject: GAO's ^{of GAO} Observations on the Proposed Revision to
Executive Order 12072 on the Policy of Meeting
Federal Space Needs in Urban Areas (PLRD-81-62)

During the past 2 years, we have issued eight reports (see enc.) in response to congressional requests for information on aspects of the implementation of Executive Order 12072. This order establishes, among other policies, the policy of meeting Federal agencies' space needs in urban areas by locating the agencies in central business areas to encourage urban development and redevelopment. Because of considerable interest, we have reviewed the General Services Administration's (GSA's) implementation of this policy.

GSA recently submitted a proposed revised Executive order to the Office of Management and Budget for its consideration. We understand that the revised order, which includes new policies on siting Federal facilities, could become effective during September 1981. In view of the proposed replacement of Executive Order 12072, we have suspended our work on the Federal facilities siting policy and are offering you the following observations based on our prior work.

We believe that siting Federal facilities to aid urban economies as called for by Executive Order 12072 and GSA's implementing regulations have resulted in some increased Federal costs without clear evidence that the local economies substantially benefited. We noted instances where GSA has relocated Federal activities to central business areas of cities to encourage urban development and redevelopment without adequately considering the impact of such relocations on the Federal agencies' missions, the added cost of space, or the benefits to the cities involved.

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The proposed replacement order would delete the policy of using the siting of Federal facilities to strengthen local economies in urban areas. It would also drop the policy that specifically requires Federal consideration of local conditions and needs in siting Federal facilities. The proposed order would, as does Executive Order 12072, require GSA to consult with appropriate Federal, State, regional, and local government officials and to consider their recommendations for, and objections to, a proposed site or space acquisition. However, the proposed order is not clear as to what consideration or emphasis GSA is to give to aiding urban economies in its siting of Federal facilities. We believe such clarification would assist GSA in making siting decisions.

BACKGROUND ON FEDERAL FACILITY SITING

Through several administrations it has been a policy to consider the economic and social impact that site selections have on urban areas and to use the siting of Federal facilities to encourage urban development and redevelopment. Executive Order 12072, signed August 16, 1978, continued this policy. It is the most recent of a series of Executive orders on Federal space management that began in 1962. The major thrust of Executive Order 12072 is to meet Federal space needs in a manner that strengthens the nation's cities by conserving urban resources and encouraging development or redevelopment, especially in economically distressed cities. It has been applied mainly to leased space. This concept of using site selections to improve local economies and help local development efforts is further supported by Senate bill 533 and House bill 1938.

The Federal space management and space acquisition policies are stated in Executive Order 12072 as follows:

"Federal facilities and Federal use of space in urban areas shall serve to strengthen the nation's cities and to make them attractive places to live and work. Such Federal space shall conserve existing urban resources and encourage the development and redevelopment of cities."

"Procedures for meeting space needs in urban areas shall give serious consideration to the impact a site selection will have on improving the social, economic, environmental, and cultural conditions of the communities in the urban area."

"Except where such selection is otherwise prohibited, the process for meeting Federal space needs in urban areas shall give first consideration to a centralized community business area and adjacent areas of similar character, including other specific areas which may be recommended by local officials."

In addition, Executive Order 12072 provides for GSA, in the process of meeting Federal space needs in urban areas and implementing the policies of this order, to consult with appropriate Federal, State, regional, and local government officials and to consider their recommendations for, and objections to, a proposed selection site or space acquisition.

The proposed replacement order eliminates the assistance-to-cities policies but retains the consultation feature of meeting Federal space needs.

GSA'S EXPERIENCE IN IMPLEMENTING
EXECUTIVE ORDER 12072

The central business area concept set forth in Executive Order 12072 has contributed to the increased cost of housing Federal agencies. Regulations implementing the order specify that first consideration shall be given to the central business area in locating agencies requiring an urban location. Defined as the areas within a city that encompass the community's principal business and commercial activities, the central business area includes, and has practically become synonymous with, the most vital, high-cost area in many cities.

Although GSA's blanket application of the central business area concept has increased costs, the benefits to the cities involved has not been determined. The preference given to such locations has been applied to all cities; no distinction has been made between economically healthy and economically distressed cities. While officials in economically distressed cities told us they would prefer to have Federal agencies locate in their distressed downtown areas, officials from some more prosperous cities told us that locating Federal agencies in the areas the cities wished to develop or redevelop outside the primary business and commercial area would be more beneficial.

There have been many relocations within central business areas and these are usually into higher cost space because, under the implementing regulations, agencies already in central business areas are kept there. Only in exceptional situations does GSA consider moving agencies to alternative space outside central business areas.

Central business area space
can be more costly

Lease rates can be substantially higher in a city's central business area than rates outside this area. For example, in one large city where GSA leases more than 1 million square feet of space, the rate is 20 percent higher overall in the central business area than outside the area. When only new leases are

considered in this city (those initiated in fiscal years 1980 and 1981), the rate is 94 percent higher in the central business area. We found large rate differences between the central and noncentral business areas in other cities as well. The rate differences apply to office space in general, not just to space leased by the Government. As might be expected, these rate differences were the most pronounced in cities that had healthy economies. However, in some cities with more distressed central business areas, we found the rates were actually lower in the central business areas.

Higher cost allowed

The implementing regulations for Executive Order 12072 allow GSA to pay more to relocate agencies into cities' central business areas if the cost of such space does not exceed 15 percent of the cost of space in the non-central area. If the cost difference is greater than 15 percent, GSA can still move the agency but is expected to consider various intangible benefits to the Government and the urban area. No limit has been established on the premium GSA will pay to relocate agencies into central business areas. As GSA stated in its lease acquisition instructions:

"This analysis is not justification for not relocating into the CBA [central business area], but is merely a tool to provide an awareness of the costs and benefits of the relocation."

SUMMARY

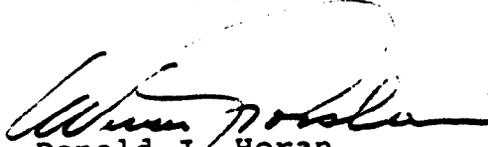
We believe that a policy of encouraging Federal agencies to take advantage of opportunities to assist local economies and support local development in meeting Federal space needs can be applied without necessarily increasing costs or adversely affecting agencies' missions. As indicated above, rental rates are generally lower in development or redevelopment areas of cities than they are in the primary business and commercial areas of cities. However, the proposed order does not make it clear what consideration or emphasis GSA is to give to aiding urban economies in its siting of Federal facilities. We believe such clarification is desirable to assist GSA in making siting decisions.

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We hope you will find these observations useful in your efforts to improve the guidance in the current executive order. These observations have been discussed with members of your

staff, and we would be pleased to discuss them further if you wish. We are sending a copy of this report to the Administrator of General Services and to other parties who have expressed an interest in this matter.

Sincerely yours,



Donald J. Horan
Director

Enclosure

GAO REPORTS RELATING TO EXECUTIVE
ORDER 12072 AND ITS IMPLEMENTATION

1. "GSA'S SPACE MANAGEMENT PROPOSALS FOR THE NATIONAL CAPITAL REGION AND FOR THE NATION'S CITIES"

This report suggested that greater progress could be made in achieving the goals of the national urban policy if GSA's implementation of Executive Order 12072 was targeted to distressed cities. It noted that GSA was competing with private industry for scarce, expensive space in the central business areas of cities regardless of the economic health of the cities. (LCD-79-315: July 30, 1979)

2. "GSA IS OVERLY RESTRICTIVE IN ITS IMPLEMENTATION OF THE NATIONAL URBAN POLICY IN FORT SMITH, ARKANSAS"

This report made an evaluation of relocating five agencies to the central business area in Fort Smith, Arkansas. It noted that competition on space procurement was inadequate, space costs were about 40 percent higher in the central business area, and the relocation could affect the ability of two agencies to carry out their missions. (LCD-80-26: December 6, 1979)

3. "RELOCATION OF GOVERNMENT ACTIVITIES TO ECONOMICALLY DEPRESSED, LABOR SURPLUS COMMUNITIES"

This report summarized congressional and executive actions regarding the relocation of Government activities from the Washington, D.C., metropolitan area. (LCD-80-29: December 21, 1979)

4. "REVIEW OF THE RELOCATION OF THE SOCIAL SECURITY ADMINISTRATION DISTRICT OFFICE IN KANKAKEE, ILLINOIS"

This report showed that GSA's implementation of Executive Order 12072 delayed a space procurement and resulted in GSA awarding a lease in the central business area that was about 70 percent higher than the offer outside the central business area. (LCD-80-34: January 30, 1980)

5. "GSA'S ACTIONS TO ACQUIRE LEASED SPACE FOR THE WESTERN AREA POWER ADMINISTRATION"

This report discussed GSA's actions to acquire space in the central business area for an agency against the agency's preference. It provided an extensive chronology of GSA's actions to acquire space and the agency's actions to resist relocating to the central business area. (LCD-80-33: February 5, 1980)

6. "OMB'S STUDY OF DECENTRALIZATION OF FEDERAL GOVERNMENT FUNCTIONS"

This report showed that relocating government functions out of the National Capital Region could be very costly. It also discussed the impacts relocations can have on employees and on gaining and losing cities. (LCD-80-57: May 29, 1980)

7. "RELOCATION OF THE SOCIAL SECURITY ADMINISTRATION DISTRICT OFFICE AT GALESBURG, ILLINOIS"

This report showed that GSA made the appropriate decision in awarding a lease. It was the more economical offer, and it satisfied the legal requirement of giving preference to leasing space in buildings of historical significance. GSA gave preference to an historical building within the central business area based upon compliance with the Public Buildings Cooperative Use Act of 1976. (PLRD-81-10: March 11, 1981)

8. "PROPOSED RELOCATION OF THE NUCLEAR REGULATORY COMMISSION REGION IV OFFICE FROM ARLINGTON, TEXAS, TO FORT WORTH, TEXAS"

This report discussed GSA's decision to relocate an agency based upon compliance with Executive Order 12072 guidelines and the Public Buildings Cooperative Use Act of 1976 rather than upon cost effectiveness. GSA prepared a questionable, incomplete, and undocumented cost-benefit analysis to support this decision. (PLRD-81-13: April 1, 1981)