

STUDY BY THE STAFF OF THE U.S.

General Accounting Office

COMPLETED

ORIGINAL

The General Services Administration's
Rental Rates (Standard Level User Charges)
For Federal Agencies



LCD-78-329
MAY 25, 1978

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FOREWARD

Public Law 92-313, dated June 16, 1972 (40 U.S.C. 490), authorizes the General Services Administration to charge rent for the space agencies occupy. The rent proceeds are deposited in the Federal Buildings Fund. General Services may use this money for financing its public buildings operations, land acquisition, design, construction, repair, and improvements.

Our Facilities Acquisition and Management staff is in the process of evaluating, through a series of staff studies and reviews, the Federal Buildings Fund. This staff study concerns the charges that the General Services Administration assesses Federal agencies for space. It is intended to show the evolution of these charges, known as standard level user charges, and the methods used by General Services to calculate the charges.

This study is being provided to the heads of divisions and offices in GAO, and to the House Committee on Government Operations, the Senate Committee on Governmental Affairs, and the House and Senate Committees on Appropriations and Public Works.



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ABBREVIATIONS

FAR	fair annual rental
GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget
SLUC	standard level user charge

CHAPTER 1

LEGISLATIVE HISTORY AND BUDGETARY PROCESS

Public Law 92-313, dated June 16, 1972 (40 U.S.C. 490), authorizes the General Services Administration (GSA) to charge agencies for the GSA-controlled space they occupy. Section 4 of the act states that the charges (commonly referred to as rental payments) to agencies "* * * shall approximate commercial charges for comparable space and services * * *." The law, however, does not contain any criteria or guidance for computing comparable commercial rates.

Section 7 of the act authorizes the Director, Office of Management and Budget (OMB), to approve or disapprove the rental rates established by GSA. The act also allows GSA to provide special services to agencies on a reimbursable basis.

Rent proceeds and reimbursements for special services are deposited in the Federal Buildings Fund to finance the construction and operation of Government buildings, including acquisition, alteration, maintenance, and protection. Through appropriation acts, the Congress specifies amounts that can be obligated by GSA from the Fund for the six building service programs, and amounts to be transferred from the Fund to miscellaneous receipts of the Treasury.

HISTORY

Introduced April 24, 1967, H.R. 9056 called for the financing of Federal buildings through a Federal Buildings Fund. Managed by GSA, it was to comprise previously authorized construction, maintenance, and management funds. This concept became part of a Senate bill (S. 1736) introduced May 3, 1971, which called for rental fees based on actual costs plus replacement costs. The bill was amended to change the rental basis to approximate commercial rates, as suggested by GSA. The argument for using approximate commercial rates was that the cost-replacement basis would result in high rates, which the customer agencies might resist.

Throughout the legislative process leading to enactment of Public Law 92-313, GSA testified in support of a standard level user charge to agencies for space, assuring the Congress that the charge would (1) induce savings by making Federal agencies account for the cost of the space they occupy and (2) allow GSA to improve service to customer agencies by providing greater flexibility in funding public buildings' activities. GSA foresaw the accumulation of a surplus in the Fund to finance new construction.

Congressional interest in the Fund concept has centered on the incentive for Federal agencies to reduce their space requirements. The Congress has not allowed an accumulation of a surplus in the Fund for construction of new facilities.

BUDGET ESTIMATES

In April of each year, GSA provides customer agencies with estimates of space rental charges for the budget year 18 months in the future. GSA supplies cost information based on the agencies' projections of the number of square feet they will occupy at the end of the subject budget year.

Prior to fiscal year 1978, rental payments to GSA were not line items in agency appropriations and, therefore, were not legally controllable by the Congress. With the fiscal year 1978 budget, space rental payments became line items, and agencies must now meet any congressionally imposed limitations in their appropriation acts. These rental payments are officially called standard level user charges (SLUC).

CHAPTER 2

RENTAL RATE COMPUTATIONS

MARKET SURVEYS AND QUALITY RATINGS

To determine the approximate fiscal year 1975 commercial rates for individual buildings, GSA used "quality ratings" and "market surveys" performed in August and September 1972. GSA assigned numerical quality ratings, on a scale ranging from zero to 100, to each occupied building. It then computed composite area rental rates for seven classifications of space (office, storage, special, parking, etc.) based on 500 sample locations for lease on the commercial market in areas of major Federal activity (cities containing 75 percent of all GSA-owned and controlled space).

The numerical quality ratings for each building were based on various factors, including the soundness of the structure, heating, lighting, and location. The composite rates adjusted by the quality ratings provided square-foot costs for rental space in the major Federal space areas.

GSA developed a single set of rates for space in the other metropolitan areas not among cities accounting for 75 percent of all GSA-controlled space (limited Federal activity areas). The regional rates developed were supposed to represent the relationships among market survey rates, quality ratings, and the weighted average cost of the GSA-controlled space in the limited Federal activity areas.

GSA's fiscal year 1975 rates for rural areas were based on its study of the relationship between space in limited Federal activity areas and small towns. The nationwide average cost of space in rural areas was calculated to be 25 percent lower than in limited Federal activity areas.

To the fiscal year 1975 rental rates, GSA added an inflation factor specific to a particular location, and (1) a \$.23 per-square-foot charge for guard and protection service for office and special space and (2) a \$.06 per-square-foot charge for warehouse and storage space. No protection charge was assessed for parking space.

GSA calculates charges for protection services by dividing the Federal Protective Service's budget by the total space for which the Service is responsible. The reasons for using this method are:

--The Federal Protective Service must be prepared to provide every customer agency with a standard level of protection, regardless of a particular agency's actual use of their services.

--Calculating protection charges on actual use would be administratively impractical, because guards frequently patrol large "beats" encompassing many small offices and, sometimes, must spend all their time at one location which has a temporary problem, such as thefts or civil disturbances.

For the most part, GSA's space rental rates for fiscal year 1976 were developed in the same way as the fiscal year 1975 rates, by a 1973 market survey. The sample size was enlarged to include 4,800 locations, half of which represented a statistically random sample. The boundaries of Standard Metropolitan Statistical Areas were used to more clearly define the boundaries of major, limited, and rural Federal activity areas. Space classifications were enlarged to 12 classifications.

At OMB's direction, GSA devised a dual (two-tier) system to offer discounts for long term occupancy. 1/ This system had the effect of reducing, by approximately 20 percent nationwide, the income from SLUC. An inflation factor specific to the geographic location of the space was added to the market survey rate. To this escalated rate was added \$.23 per square foot for guard and security service for office and special space, and \$.06 for warehouse and storage space.

1/All space occupied as of July 1, 1975, was given a Tier II rate based on a discount of 5 percent for each year of the average assignment period for space in that particular market area. For all new space assignments to agencies after July 1, 1975, the agencies were billed at the full Tier I rate.

For example, in Detroit, Federal agencies occupying GSA space at July 1, 1975, had been there an average of 4.83 years. A building in Detroit with a quality rating of 100 had a Tier I official rate of \$10.83 per square foot. All space occupied at July 1, 1975, received a 24.2-percent discount (4.83 years x 5 percent per year). Thus, space occupied in a building with a 100 quality rating would be billed at a Tier II rate of \$8.21 (\$10.83 less 24.2 percent discount = \$8.21). Any agency moving into the same building after July 1, 1975, would have been billed at the prevailing \$10.83 Tier I rate.

For fiscal year 1977, GSA retained the 1976 rates, including the dual system and the protection charges. Also, in anticipation of a congressionally directed reduction, GSA reduced the rates by 10 percent. Based on the published projections of inflation by the President's Council of Economic Advisers, GSA added an overall 6-percent inflation factor to the 1976 rates.

FAIR ANNUAL RENTAL RATES

For fiscal year 1978, GSA adopted a new method of determining space rental rates. Each building was independently appraised, and a fair annual rental (FAR) rate comparable to commercial rent was established. Before implementing the new method, GSA officials studied GSA's leasing experience to identify the characteristics of a typical GSA lease. They concluded that the typical lease was for 3 years and involved between 3,000 and 5,000 square feet of space. They made these characteristics (plus full service for utilities, sanitation, and maintenance) the common denominator for appraisals under the new method.

To substantiate that their estimated rates for appraised GSA space are comparable to commercial rates, appraisers record descriptive details on three parcels of commercial space which, in their professional judgment, are comparable to the Federal space being examined. For appraising GSA space in rural areas or small towns, appraisers may seek comparable commercial space as far as 50 miles away, if there is none closer. However, the appraisers cannot use buildings in metropolitan areas.

Each year, GSA reappraises one-third of its inventory, or about 3,500 buildings, at an average cost of \$140 for each contract appraisal. When GSA enters into a new lease or renegotiates an old one, its own appraisal staff performs the appraisals, which are subsequently used to certify that the rent will not exceed the limits of the Economy Act. These appraisals are the basis for FAR rates for the properties GSA examined. GSA estimates that it will pay about \$450,000 annually in fiscal years 1978 and 1979 for contract appraisals. The rates derived from these appraisals are in effect for 3 years.

Because appraisals are made about 18 months before the period to which the rates apply, GSA adjusts the appraised rates to account for estimated inflation. For example, rental appraisals for fiscal year 1978 were conducted between December 1975 and May 1976. To update the appraisals, a

9.3-percent inflation factor was added to cover the period from May 1976 to October 1, 1977. 1/ Additionally, a \$.28 per-square-foot charge for office and special space and a \$.09 per-square-foot charge for warehouse and storage space was added to pay for guard and security services.

For those buildings reappraised between October 1976 and January 1977, to prepare space rental rates for fiscal year 1979, a 12.6-percent inflation factor was added to update the appraised rates to market conditions through fiscal year 1981. 2/ Space rental rates for 1979 also include a \$.28 per-square-foot protection charge for office and special space and a \$.07 per-square-foot protection charge for warehouse and storage space.

AGENCIES' OPINIONS ON FAR

Of the 30 or 40 Federal executives and agency heads briefed by GSA about the FAR method before its implementation, not more than three or four objected. Nearly every agency consulted agreed that FAR appraisals would produce commercially comparable rates.

GSA records show that the FAR system, plus an improvement in GSA's billing data bases, have reduced agency complaints about rates. Any agency can request GSA review of a particular rate, and can appeal to the Administrator of GSA when it has evidence that a rate is not representative of the commercial market rent.

Some agencies claim that the FAR system has resulted in them paying, through reimbursements to GSA, for basic janitorial, maintenance, and protection services, which the agencies believe should be part of SLUC. The dollar amount of GSA's reimbursable services has more than tripled since 1975. GSA maintains that reimbursement is required only for services beyond the standard level provided by commercial enterprises. Examples of reimbursable services are:

1/Based on the Council of Economic Advisers' projection of a 6-percent per annum rate of inflation.

2/Inflation projections for 1979 were based on statistics published by the Building Owners and Managers Association. These projections were used because they are directly related to commercial rental rates and provide a more valid prediction for commercial comparability than general consumer price forecasts, such as those made by the Council of Economic Advisers.

utilities and protection required to keep offices open evenings or weekends; extra utilities for high use activities such as computer centers; and special alterations requested by agencies.

CHAPTER 3

BILLINGS, REDUCTIONS, AND TRANSFERS

BILLINGS

GSA's annual billings to Federal agencies for SLUC are shown below.

Annual SLUC Billings

<u>Fiscal year</u>	<u>Charges</u>
	(in millions)
1975	a/ 952.3
1976	b/1,045.0
1977	c/1,119.5
1978	d/1,351.4
1979	d/1,383.7

a/GSA estimate. Actual figure unavailable because of poor data base and problems with computer tapes.

b/GSA estimates \$1,045 to \$1,050 million. Precise figure unavailable, although GSA maintains its estimate is reliable.

c/Actual billings.

d/Estimated billings.

The following tables show further detail on annual SLUC income for fiscal years 1976 through 1979. Comparable data for 1975 is not available.

Average Annual SLUC Income
by Types of Space
Fiscal Years 1976 and 1977

<u>Type of space</u>	<u>Fiscal year 1976 (note a)</u>			<u>Fiscal year 1977 (note b)</u>		
	<u>Average square feet</u>	<u>Annual SLUC Income</u>	<u>Per square foot</u>	<u>Average square feet</u>	<u>Annual SLUC Income (note c)</u>	<u>Per square foot</u>
Office	122,634,352	\$ 733,381,000	\$5.98	128,150,499	\$ 817,359,014	\$6.38
General storage	10,116,802	39,710,000	3.93	8,447,516	35,023,007	4.15
Warehouse	38,391,229	55,385,000	1.44	34,109,427	52,253,055	1.53
Lab and clinic	3,789,831	38,665,000	10.20	3,697,606	40,232,516	10.88
Food service	2,639,296	26,125,000	9.90	2,722,596	29,190,127	10.72
Structurally changed	4,824,139	37,620,000	7.80	4,377,843	36,934,222	8.44
ADP	2,848,489	20,900,000	7.34	2,425,808	19,046,882	7.85
Conference and training	1,489,899	10,450,000	7.01	1,691,758	12,762,174	7.54
Light industrial	9,633,465	37,620,000	3.91	9,973,277	42,531,132	4.27
Quarters/residence	519,023	209,000	.40	700,612	228,255	.34
Inside parking	12,216,871	13,585,000	1.11	10,691,892	13,155,804	1.23
Outside parking	46,279,060	31,350,000	.68	49,934,244	34,610,228	.69
Total	<u>255,384,456</u>	<u>\$1,045,000,000</u>	<u>\$4.09</u>	<u>256,923,168</u>	<u>\$1,133,326,416</u>	<u>\$4.36</u>

a/Estimated.

b/Actual.

c/Gross.

Estimated SLUC Income
Per Square Foot of Space
Fiscal Years 1978 and 1979 (note a)

<u>Fiscal year</u>	<u>Estimated total square feet</u>	<u>Estimated SLUC Income (note b)</u>	<u>Per square foot</u>
1978	251,756,515	\$1,351,400,000	\$5.37
1979	270,342,093	1,383,700,000	5.12

a/Income by type of space is unavailable at this time.

b/Latest GSA estimates.

CHARGES TO TRUST
FUND AGENCIES

Pursuant to the Congress' directions, GSA charges the Social Security Administration and the Railroad Retirement Board only for actual operating costs and any alterations required to their spaces. Their administrative costs are paid from the trust funds they manage.

For each quarter of the fiscal year, GSA bills the two agencies at a percentage of the prevailing SLUC rates, based on the prior year's experience. At the end of each year, GSA adjusts the rental charges to actual costs for that year. The amounts charged and the space occupied are shown below.

Social Security Administration (note a)

	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u> <u>(through March)</u>
SLUC bill	\$96,808,658	\$95,623,353	\$56,528,895
Adjustment to re- flect actual costs	<u>23,267,329</u>	<u>9,435,980</u>	<u>8,196,690</u>
Final charge	<u>\$73,541,329</u>	<u>\$86,187,373</u>	<u>\$48,332,205</u>
Average square feet occupied	20,099,271	21,812,078	22,240,445

Railroad Retirement Board (note a)

	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78---</u> <u>(through March)</u>
SLUC bill	\$2,094,044	\$2,513,087	\$1,283,049
Adjustment to re- flect actual costs	<u>462,195</u>	<u>890,335</u>	<u>461,897</u>
Final charge	<u>\$1,631,849</u>	<u>\$1,622,751</u>	<u>\$ 821,152</u>
Average square feet occupied	401,620	425,175	428,496

a/Comparable data unavailable for fiscal year 1975.

REDUCTIONS IN SLUC

In fiscal year 1975, OMB reduced GSA's space rental rates by 13 percent to reduce the total SLUC billings. According to OMB, its objective was to make GSA's rates commercially equivalent for space occupied longer than 1 year.

In the appropriation acts of the various agencies, the Congress reduced agency SLUC payments to GSA by 10 percent in fiscal years 1975 and 1976, apparently to reduce construction reserves and transfers to miscellaneous receipts of the Treasury. A single assessment of congressional intent in reducing the payments would be tentative, at best, because (1) the authorization of funds to pay space charges to GSA is handled by the various subcommittees of the appropriation committees reviewing agency budget requests and (2) the reduction was made in each individual appropriation act. However, based on hearings before the House Public Works Committee, the reductions apparently were an effort to appease congressional opponents of GSA's authority to charge other agencies for space. Additionally, some members of the Congress apparently believed that GSA's charges were too high and that Federal Buildings Fund surpluses should be held to a minimum.

For fiscal year 1977, GSA reached an agreement with members of the Congress that, if GSA internally reduced the SLUC rates by 10 percent, it would not be necessary for the Congress to do so.

SLUC collections for fiscal years 1976 and 1977 were also significantly reduced by OMB's decision to have GSA devise the dual (two-tier) system. As discussed on page 4, the dual system offered discounts for long term occupations of space and reduced total SLUC income by about 20 percent.

The Congress and OMB did not reduce GSA's planned SLUC charges for fiscal year 1978, but the 1978 appropriation act requires GSA to deposit, in miscellaneous receipts of the Treasury, any income in excess of the obligational authority specified in the act for its building operations. Thus, the Congress has continued to restrict the accumulation of reserves.

The following table details the reductions in SLUC collections resulting from the actions of OMB, the Congress, and GSA.

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Reductions in SLUC Collections

<u>Action</u>	<u>Amount of reduction</u>		
	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>
OMB's 13-percent reduction in rates	a/ \$ -		\$ -
The Congress 10-percent reduction in agency payments	a/ 116,111,111		-
GSA's 10-percent reduction in SLUC rates	-	-	124,387,413
OMB's dual (two-tier) system	=	<u>290,277,778</u>	<u>310,968,533</u>
Total	a/	<u>\$406,388,889</u>	<u>\$435,355,946</u>

a/GSA unable to provide comparable data for fiscal year 1975.

TRANSFERS TO TREASURY

Through fiscal year 1977, GSA had transferred about \$7 million from the Federal Buildings Fund to miscellaneous receipts of the Treasury, as follows:

Transfers to Treasury

<u>Fiscal year</u>	<u>Amount transferred</u>
	(in millions)
1975	\$2.5
1976	0
1977	a/ <u>4.434</u>
Total	<u>\$6.934</u>

a/Includes \$2.37 million of expired prior year funds and \$2.064 million of fiscal year 1977 funds.

CHAPTER 4

PRIOR AUDITS OF SLUC RATES

On March 10, 1975, we issued a report entitled "General Services Administration's Methods For Computing Rent for Federally Occupied Buildings Need Further Improvement" (LCD-75-324). The report concluded that GSA's market survey method for determining SLUC rates did not give adequate consideration to the influence of location on rental rates, and that the building quality ratings were too subjective and were applied arbitrarily. GAO recommended that GSA adopt a more precise method to estimate commercially comparable rates.

GSA's internal audit group reviewed GSA's methods for calculating space rental rates for fiscal year 1976. In its report, the GSA Office of Audits stated that the basic shortcoming of the market survey method was that it did not adequately account for the significance of location in determining commercially comparable rental rates.

Using FAR appraisals to establish rental rates was GSA's response to criticism of its previous methods. FAR appraisals, performed primarily by independent contract appraisers, alleviated the shortcomings of the market survey method by specifically evaluating such factors as location, age, and condition, and by reducing the subjectivity of quality judgments.

A GAO audit of Agriculture's space rental payments to GSA (LCD-78-306, Jan. 18, 1978) demonstrated that: (1) previous data base inaccuracies in GSA's billing system have been alleviated, (2) the FAR appraisal method appears to provide defensible, documented, commercially comparable rental rates, and (3) all Federal agencies receive fair and equal treatment from GSA.

As discussed in the Agriculture report, GSA officials were of the opinion that in the first 3 years (1975-77), GSA's rental rates did not accurately reflect comparable commercial rates because of (1) the methods used to calculate rates in the former market surveys, (2) the time pressures under which those surveys were made, and (3) the reductions in the rates imposed by OMB and the Congress.

The officials also felt that the rates GSA charged for space in rural areas were too low.

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