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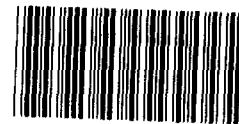
Testimony

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The General Services Administration's
Purchase and Options to Expand the
Silver Spring Metro Center

Statement of
William J. Anderson, Assistant Comptroller
General
General Government Programs

Before the
Subcommittee on Public Buildings and Grounds
Committee on Public Works and Transportation
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

We are pleased to appear before you to discuss the results of our review of various issues and concerns relating to the General Services Administration's (GSA) purchase of one building and options to lease and purchase four additional buildings at the Silver Spring Metro Center. We did this work in response to a request from Senator Roth. Today, I would like to discuss in general the findings we had with respect to several issues we were asked to review.

We found that the numerous concerns raised in a GSA inspection report on the first building have, for the most part, been resolved as far as that building is concerned. However, some of the items could be of greater concern in the four buildings to be constructed. We also identified a concern over the government's ability to obtain fee simple title to two of the buildings, should it desire to purchase them. Although we identified these and other concerns, our work was not designed or sufficient to enable us to recommend whether the lease prospectus should be approved or not. Because of the short time frame on this assignment, such a determination was not within the scope of our work. It would require, among other things, a thorough assessment of other alternatives available to GSA. However, I hope that our information will help you in your deliberations on this project.

SCOPE AND METHODOLOGY

We performed the work on which my remarks will be based during June 1987. We reviewed GSA's program guidelines, policies, and procedures; reviewed its files relating to the purchase; toured the purchased building; collected available information on the overall Building Purchase Program at GSA's central office; and interviewed GSA personnel and a commercial realtor.

THE BUILDING PURCHASE PROGRAM

In fiscal year 1983, Congress appropriated \$14.1 million for GSA to purchase single buildings in a short time frame as they become available and without obtaining prospectus approval from the Public Works Committees. These funds were augmented annually, except for fiscal year 1986. The Building Purchase Program has evolved from a device to take advantage of unanticipated purchase opportunities to a method of routinely obtaining a single building or a complex of buildings by purchasing, through a solicitation, an initial building and including options to lease and purchase other buildings. GSA has purchased seven buildings under the program--two with options to lease and purchase additional buildings--at a cost of \$144 million.

GSA's program guidance requires that proposed purchases satisfy an identified need for space, that an appraisal and a detailed engineering inspection be made of the proposed building, and that the Office of Management and Budget approve the intended

purchase. Although GSA followed these procedures in the purchase of the first building at Silver Spring Metro Center, GSA officials said the guidance is not sufficiently specific for carrying out negotiations of this complexity and will be improved. They said that oral guidance was used to supplement the written guidance for this purchase.

THE PURCHASE CONTRACT

The Silver Spring Metro Center building was purchased on February 17, 1987, for \$21,870,000. The contract included options to lease and subsequently purchase four other buildings yet to be constructed adjacent to the first building. Options to lease three of these buildings were originally scheduled to expire on June 30, 1987, but were extended to August 1, 1987. The contract requires the lease options to be exercised before the purchase options can be exercised. GSA has the option to purchase after initial construction or after years 5 or 10 of the leases. No credit against the purchase price is given for any lease payments made. If GSA exercises the initial purchase options for all buildings immediately after they are completed, the cost of the five-building complex would be about \$240 million, not including the cost of a parking garage that is planned to be located beneath two of the buildings or any modifications to the buildings that GSA directs.

BUILDING I CONCERNS

We reviewed GSA's disposition of concerns raised in an engineering report dated September 22, 1986, on building I. The

report contained 62 items that GSA referred to as "deficiencies." Many of the items were not deficiencies. The items included alleged actual or potential problems, questions requiring further investigation, and positive comments on certain building features. The inspectors' observations covered the building's provisions for the handicapped, whether the exterior precast concrete panels were anchored properly, the lack of a loading dock and a freight elevator, incomplete installation of the roof, apparent water seepage, possible inadequate air conditioning and electrical power capacity, and numerous other items. Some of the alleged problems, for example the roof installation, were attributable to the fact that the inspection was made before construction work had been completed. These were later completed to GSA's satisfaction.

According to GSA's architects and engineers, of the 62 items, the seller corrected or agreed to correct 36 while 25 did not require any action. The remaining deficiency--the absence of a freight elevator--was one that GSA decided to accept.

Based on the opinions of the GSA architects and engineers we interviewed and on our firsthand observations, we believe that GSA adequately disposed of most of the items in the inspection report. However, seven could pose a problem to tenants. Three items--an improvised loading dock, the lack of a freight elevator, and the line-of-sight into the restrooms--will be troublesome no matter how the building is used. Four other items--the floor live loads (weight carrying capacity), vertical

height between floors, and the air conditioning and electrical power capacities--could pose problems if the building were used for more demanding purposes than as normal office space. This building was not designed for the load bearing, power, or cooling demands associated with mainframe computers or other specialized kinds of equipment. GSA said that such items will not be concerns in building I because the planned use of the building will be limited to office space. However, these limitations could be of greater concern in the four buildings to be constructed, depending upon how they will be used.

FUTURE BUILDING CONCERNS

The contract provides that the four future buildings will be constructed to an equivalent standard as building I. GSA is allowed to modify the design, but this will be at the government's expense. Although the principal proposed tenant, the National Oceanic and Atmospheric Administration (NOAA), has not yet identified its special space requirements, GSA's prospectus estimates that 25 percent of the total space will be for special space, such as computer rooms, a library, and telemetry equipment.

GSA officials said they recognize that the second through fifth buildings will probably have to be modified to meet these special requirements. Certain areas of these buildings may have to have increases to their floor live loads, vertical heights

between floors, and air conditioning and electrical capacities. The officials said that all of these buildings would be required to have freight elevators. They also said it will be less costly to incorporate such modifications at the design stage.

UNIQUE CONCERNS OF BUILDINGS III AND IV

The purchase contract requires that the third and fourth buildings must be leased or purchased together. The developer does not yet own the land or have a binding option to purchase the land on which these buildings will be constructed, but has entered into a Memorandum of Understanding with the owner, Montgomery County. The memorandum, which expires in August 1987, states it is not legally binding on the parties. Under the terms, the developer is to erect a parking garage on the County's land. The two buildings will be constructed over the garage. If GSA leases the buildings, it will not have to lease the garage. However, if GSA wants to purchase buildings III and IV and obtain fee simple title, it will have to purchase the garage at a price yet to be determined. Of course, this assumes that the developer will have a lease with the option to purchase the land and parking garage from the County and that the lease will contain a right of assignment so the developer can assign the purchase option to GSA. In short, a complicated set of circumstances must fall into place in order to consolidate NOAA at Silver Spring. Much rests on the actions of Montgomery County, which is not a party to this contract and is not yet bound to the developer.

Furthermore, if the terms of the memorandum are made binding, the developer will have the option to lease the ground and, within 3 years, buy the land and air rights or lease the air rights. The memorandum, however, sets forth the intent of the parties that should the developer opt to purchase the land and its air rights, a covenant would exist at the discretion of the County, assuring the existence of a County parking garage.

THE PROSPECTUS

In its May 1, 1987, prospectus, GSA requested authority from the Public Works Committees to lease the four additional buildings. GSA proposes moving NOAA and the National Science Foundation into the complex. However, GSA officials said the National Science Foundation has not yet agreed to relocate to the Silver Spring complex. The prospectus states that over a 30-year period, direct federal construction would be less costly than (1) leasing space elsewhere, (2) leasing the four buildings, or (3) leasing the four buildings for 5 years then purchasing them. It recommends that the buildings be purchased after 5 years of leasing. The prospectus does not show the costs of the two other alternatives in the contract--purchasing after initial construction and purchasing after 10 years of leasing. GSA officials said this was because the purpose of the prospectus was merely to obtain authority to enter into the leases.

REASONABLENESS OF PRICES

Our review also dealt briefly with the reasonableness of the lease and purchase prices in the contract. We found that the

purchase price for building I was slightly below the appraised value and the base lease prices for the four other buildings were within GSA's acceptable range and within the range of asking prices for 10-year leases for real estate near the Silver Spring Metro station. The value of the purchase options is highly dependent on the future course of the local real estate market.

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Mr. Chairman, this concludes my prepared statement. We will be happy to respond to any questions you or other Members of the Subcommittee may have at this time.