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The Federal Home Loan Bank Board Building. November 13, 1978. 10 pp.

Testimony before the Senate Committee on Appropriations: HUD-Independent Agencies Subcommittee; by Richard W. Gutschann, Director, Logistics and Communications Div.

Contact: Logistics and Communications Div.
Organization Concerned: Federal Home Loan Bank Board.
Congressional Relevance: Senate Committee on Appropriations:
HUD-Independent Agencies Subcommittee.

The General Services Administration (GSA) was responsible for the basic structure and exterior finish of the Federal Home Loan Bank Board Building, and the Bank Board assumed responsibility for interior finishing. GSA obligated about \$40.9 million for site acquisition, design, management inspection, and construction; construction costs exclusive of site acquisition were \$33,180,294. Total estimated project costs for interior and exterior costs were about \$51.8 million. The Board's loss from the disposition of furniture and equipment in its old building cannot be determined. There is a question as to whether the Bank Board and other agencies are authorized to lease space based solely on their authority to control and manage real property, and a related question concerns whether the Bank Board has authority to construct a building larger than its needs solely for the purpose of providing lease space for commercial users. As of July 1978, six leases accounted for about 82% of the available ground floor space available for leasing. The Bank Board agreed to finance 75% of the costs to prepare a restaurant-cafeteria facility up to \$768,000 and to pay all utilities except telephone service. The Board decided it wanted a French restaurant, effectively eliminating all but 1 of approximately 40 parties interested in a food concession. Although it has already incurred nearly two-thirds of its total share of the budgeted costs of the restaurant, the Board had not exercised its right to audit the books of the food concessionaire. (RRS)

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United States General Accounting Office
Washington, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m. EST
Monday, November 13, 1978

Statement for the Record of
Richard W. Gutmann, Director
Logistics and Communications Division

Before the

Senate Subcommittee on HUD
and Independent Agencies
Committee on Appropriations

on

The Federal Home Loan Bank Board Building

Mr. Chairman, (members of the Committee,) we are pleased to appear before the Committee as you requested and to comment on matters pertaining to the new Federal Home Loan Bank Board Building. Earlier this year we provided information on the total estimated project costs for your use prior to the appropriation hearing on April 26.

For this hearing, we were asked to up-date the building project cost estimates, to include in the project costs an estimate of loss, if any, on disposal of furnishings, to summarize the status of the leasing of space for commercial use, and to comment on particular matters related to the food concession lease.

ESTIMATED PROJECT COSTS

As you know, GSA was responsible for the basic structure and exterior finish of the building, and the Bank Board--by agreement with GSA--assumed responsibility for interior finishing. The Federal Home Loan Mortgage Corporation, which is governed by the three Bank Board members and its President, was given authority by the Bank Board to finish, furnish and equip its quarters consisting of the entire sixth floor, excluding the board room.

The General Services Administration obligated about \$40.9 for site acquisition, design, management inspection and construction. Construction cost exclusive of site acquisition, is \$33,180,294.

The Bank Board and the related Federal Home Loan Mortgage Corporation spent about \$10.9 million to furnish, equip and move into the new facility. The total estimated project cost for the exterior and interior costs is about \$51.8 million.

The Board generally agrees with our estimate of the total costs of the project. The principal differences are whether about \$340,000 of expenditures are properly capital costs of the project or otherwise were incurred for moving into new quarters, or were ordinary operating expenses. The Board, for example, has charged to operating expenses some of the landscaping and decorating costs and certain consultant fees for services related to the retail area of the building. We consider these costs to be part of the total project cost.

The Board would also reduce its own costs for the project by about \$1.5 million of anticipated profit realized on the sale of the old site, and about \$1.5 million of project cost paid for by the Mortgage Corporation.

You asked us to update the total estimated project cost which was furnished for your hearings last April. Actually, we arrive at approximately the same estimated cost currently of about \$51.8 million. Our current estimate differs in some of the elements of the costs, however, which are available in the detailed schedules we provided your staff.

Loss and Disposal of
Furniture and Equipment

We cannot determine the Board's loss from the disposition of furniture and equipment in its old building. According to entries on the inventory lists of items turned over to GSA for sale, the acquisition value of those items was about \$900,000. We applied to that amount the average ratio of depreciation of all the Board's furniture and equipment at the end of 1976, and arrived at an estimated book value of about \$480,000 for the items to be disposed of. Board officials have informed us, however, that the book value of items on the disposal list were much less. That information came to us only recently, so that we have not had an opportunity to check further the value of the disposed items.

GSA recently completed the sale of all disposal items to other agencies, and estimates total receipts of about \$109,000. A GSA official told us that the proceeds from the Bank Board's assets were higher than usual on such transfers, because of the generally good condition of the items, ranging from high quality executive level furniture to the regular Government property.

OTHER FEDERAL
OFFICE BUILDINGS

The new Board building, with a total project cost of about \$51.8 million and 474,977 gross square feet of space, has a project cost per square foot of \$109. Eliminating

land costs, the costs of the Board's building amounts to about \$93.00 per square foot.

Although we recognize that costs of recently constructed Federal office buildings in the Washington area are not necessarily comparable, because of differences in design, site conditions, size, and other factors, the relatively high cost per square foot of the Bank Board Building does stand out. The cost per square foot for three buildings which were completed in 1975 and 1976 were: (1) the New Labor Building \$52., (2) South Portal Building \$51., and (3) the J. Edgar Hoover Building \$53. By excluding acquisition costs from the total estimated project costs, the project cost per square feet were \$49 for the Labor building, \$50 for South Portal and \$49 for the J. Edgar Hoover Building.

LEASING OF SPACE TO COMMERCIAL TENANTS

We reviewed leasing activities of the Bank Board at the request of the Chairman of the Subcommittee on Government Activities and Transportation, House Government Operations Committee. Our report entitled "Government Space Leased to Commercial Activities by Agencies Other Than the General Services Administration" was released to the Committee on October 13, 1978. There is a question about whether the Bank Board and other agencies are authorized to lease space based solely on their authority to control and manage real property. A lawsuit was filed

by Globe Book Shops on August 30, 1978, in the United States District Court for the District of Columbia against the board, in which Globe Book contends among other things that the board lacks the authority to lease space in its building to a commercial establishment. There is also a related question of whether the Bank Board has authority to construct a building larger than its needs solely for the purpose of providing lease space for commercial users.

As of April 1978 the Board had entered into three lease agreements for about 58 percent (15,367 square feet) of the available commercial space (approximately 27,000 square feet). Two more leases were signed in May and another in July. These 6 leases account for about 82 percent of the available ground floor space available for leasing.

The three leases signed as of April 1978 were as follows:

--Expressions, Inc.,--a card shop.

--Frankie Welch of America, Incorporated,--a women's ready-to-wear fashion shop.

--1725 F St., Inc.,--a restaurant on the ground floor, a cafeteria on the basement level beneath the restaurant, a cocktail lounge adjacent to the cafeteria, and an outdoor cafe in the plaza area.

By amendment to the lease in August, 1978, the restaurant concessionaire will also operate a snack bar on the ground level adjoining the restaurant. The restaurant

concessionaire leases about one third (6,800 square feet) of the total space available (20,000) on the ground floor and 100 percent (7,000 square feet) of the retail space available in the basement.

The three additional leases signed since April 1978 are:

--K&K Ladies Wear, Inc.,--ladies' accessory shop

--Crown Books Corporation--a book shop.

--Dopik and Katz, Inc.--an optical shop.

We reported in October 1978 that some favorable conditions have been extended to two of the first three tenants. For example--Frankie Welch' of America, Inc., has no rent obligation for the first 3 years, and its concession fee over 3 years will be reduced by the cost for fixtures. Expressions, Inc., has no such feature. After our report was issued the Board waived the payment of all minimum concession fees for 1978 for Expressions, Inc., and waived payment of all percentage concession fee for the first 6 months of 1978. For the last six months the percentage of concession fee has been reduced to 5 percent from 10 percent.

The Bank Board agreed to finance 75 percent of the costs to prepare the restaurant-cafeteria facility up to \$768,000 and to pay all utilities, except telephone service. The other two tenants pay the cost of all their utilities. Lastly, the average annual square-foot-cost charge is not consistent among the three leases. For the last three leases signed the tenant will pay all utilities'.

Most of the leases provide for increasing minimum concession fees during the terms. We averaged the minimum fees for purposes of computing per-foot revenues. Three lease fees are \$15 or more per square foot, one is \$11.25, and two are below \$10. The food concession leases is for \$7.50 a square foot, the lowest of all the leases. The food concession lease also has the longest term (20 years) of all the leases.

Based on the average rental rates per square foot it appears that the two leases under \$10 are favorable to the tenants. One of these is the subject of litigation, and in keeping with our policy on such matters, we do not comment on matters in litigation.

The Board decided it wanted a French Restaurant, a food concessionaire willing to make a substantial capital investment, and one who would operate the cafeteria and other food services as well as the restaurant. This effectively eliminated all but one of the approximately 40 parties originally interested in a food concession. Subsequent negotiations narrowed to 1725 F St., Inc., with whom the Board signed a lease in August 1977.

FOOD CONCESSIONAIRE

The terms of the lease provides for 1725 F St. to make improvements approved by the Board. An amendment to the concession agreement states that the parties acknowledge that 1725 F St., Inc. intends to utilize Alto, Inc. as its major source of supply and its contractor for the construction work. The amendment stated that the parties acknowledge

that the owners of Alto Inc. are also the owners of the food concessionaire, 1725 F St. The agreement also permits the concessionaire to use subcontractors and suppliers of its own choosing.

The net effect of this agreement is that 1725 F St., was permitted to equip, furnish and complete the facilities without the benefit of competition. Board officials advised us that the Board had approved a plan for the construction, furnishing and equipping of the food service areas costing \$1,024,000. The Board's 75 percent will amount to \$768,000. The concessionaire's will be \$256,000. One further financial provision is that the concessionaire agrees to provide \$60,000 as working capital to operate the restaurant and cafeteria.

To date, the Board has received invoices for the food service areas totalling \$633,863.22. Under the terms of the lease the Board's share of these invoices is \$475,405.10. Based on our review, the invoices for material and supplies that Alto Inc. purchased from other suppliers are marked up 50 percent of cost. We have been told that the Alto invoices for labor and equipment provided directly by the firm are also marked up 50 percent of cost. The latter invoices do not show the details of Alto's costs.

One of the principal reasons for the Board's selection of the 1725 F. Street firm was its willingness to invest its own capital in the interior furnishing and equipping of the restaurant. The firm's 25 percent share of the currently estimated cost of \$1,024,000 represents that investment.

It is interesting to note, however, that the 50 percent mark-up over cost by its related Alto firm results in a breakdown of the total costs into about \$683,000 for the invoiced price of labor, building materials, equipment, and furnishings, and about \$341,000 in mark-up for the Alto firm's services, overhead, and profit. The latter amount exceeds 1725 F Street's share of the total costs by about \$83,000. Thus the investment of the 1725 F Street corporation really depends on how much the actual costs of design services, management and overhead, and a reasonable profit, exceed \$83,000.

The Board uses a consulting engineer firm to inspect the progress of the restaurant work, and to verify that the invoices billed to the Board are for items delivered and/or work completed. The consultant has certified to the Board that the prices invoiced by the Alto firm "appear reasonable". Interestingly, the consultant engineer hired another consultant to check the equipment, material, and labor being charged to the Board. The prime consultant bills the Board the sub-consultant's fees plus a mark-up of 150 percent.

We consulted GSA's Food Service Branch about the reasonableness of the prices billed the Board by the Alto firm for selected pieces of restaurant equipment. According to GSA specialists the Alto prices, including its 50 percent mark-up, were about 3 percent less than the Federal Supply catalog prices available to GSA and other Government agencies.

According to GSA specialists, the manufacturers' price lists in effect when the Board was invoiced were subject to a normal trade discount of from 30 percent to 50 percent for restaurant supply firms. We compared the discounted prices to 1725 F Street's invoice prices, less its 50 percent mark-up. The total invoice prices were about 12 percent higher than the trade discount prices of the manufacturers. We do not know, of course, what the related Alto firm actually paid for these items, because it does not show this data on the invoices for equipment it provides directly.

To date the Board has not exercised its right under the lease to audit the books and records of 1725 F St., Inc. and the related Alto firm, even though it has already incurred nearly two-thirds of its total share of the budgeted costs. We understand that the Board plans to have an audit of these costs made late this month. Inasmuch as 1725 F. Street has permitted to contract with its related Alto firm without competition for the contract, and the contract has features of a cost plus a percentage of cost agreement, a Board audit of 1725 F St., Inc. costs is essential.

That concludes my prepared statement Mr. Chairman. We will be pleased to answer any questions you have about the information I have presented.

Ms. ...
... 4118

NOTICE OF HEARINGS

COMMITTEE : Senate Appropriations Committee, Subcommittee
on HUD-Independent Agencies

SUBJECT : Federal Home Loan Bank Board Building

DATE : November 13, 1978

TIME : 10:00 a.m.

ROOM : 1318, Dirksen Building

MEMBERSHIP : Senator William Proxmire (D-Wisc.), Chairman

MAJORITY : Senators William Proxmire, John C. Stennis (Miss.),
Birch Bayh (Ind.), Walter D. Huddleston (Ky.),
Patrick J. Leahy (Vt.), and James R. Sasser (Tenn.)

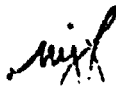
MINORITY : Senators Charles McC. Mathias (Md.), Clifford P.
Case (N.J.), Edward W. Brooke (Mass.), and
Henry Bellmon (Okla.)

PRINCIPAL STAFF: Thomas van der Voort, professional staff member

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Office
Martin J. Fitzgerald, Director, Office of
Congressional Relations

ONE CAR WILL LEAVE FIRST BASEMENT, G STREET, AT 9:40 A.M.


Martin J. Fitzgerald, Director
Office of Congressional Relations