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COMPTROLLER GENERAL OF THE UNITED STATES

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MAY 22 1974

The Honorable Dick Clark
Chairman, Subcommittee on
Public Buildings and Grounds
Committee on Public Works
United States Senate

Dear Mr. Chairman:

On December 13, 1973, you requested our comments on your letter to the General Services Administration (GSA) of the same date outlining additional information to be included in GSA prospectuses for Federal building projects presented for congressional approval. We believe that this added information should facilitate the Subcommittee's review and evaluation of GSA proposals, and our comments on the proposed requirements follow.

Item 3 of your letter would require that a prospectus contain present-value comparisons of alternatives considered, including full life-cycle and initial costs, and that an appropriate discount rate be used.

Selecting an appropriate discount rate has been one of the major problems in using present-value comparisons. Arguments have been presented for rates ranging as low as the cost of borrowing by the Treasury to as high as the rates of return that can be earned in the private sector of the economy. The discount rate used directly affects the results and conclusions of a lease-construction comparison. Therefore, selecting the appropriate rate is more than academic. As a rule, construction will be more economically advantageous as the discount rate decreases and, conversely, leasing normally will be more economically advantageous as the discount rate increases.

We have advocated using a present-value analysis in lease versus purchase cost comparisons. In comparisons such as these, when the Government is attempting to select the least expensive way to finance an investment, the average yield on outstanding marketable U.S. Treasury obligations--with remaining maturities comparable to the analysis period--is a fair indication of the Government's cost of money and is an acceptable basis for establishing the discount rate.

Although present-value analysis provides the appropriate basis for evaluating alternatives that differ in the timing of cash flows, knowing the total undiscounted dollar cost (outlays), including anticipated inflation, could also be useful to the Congress. In considering proposed authorizations and/or appropriations, the Congress should be aware of the total fund requirements needed to finance each investment alternative over its estimated life.

Life-cycle costing, according to GSA, includes an evaluation of the effect of building design not only on initial cost but also on the cost of

operating and maintaining the building during its useful life. When alternatives are evaluated, this technique can reveal that a low initial price is not the best indication for choosing among available alternatives. Because the cost of operating and maintaining a facility is normally a major cost over its life cycle, savings in these recurring costs may more than offset a higher initial price.

Generally, GSA has excluded operating and maintenance costs from present-value comparisons under the assumption that these costs would be identical under the construction, lease, or purchase contract alternatives. However, operating and maintenance costs would not be identical if these costs were computed on the basis of different building designs to be used for each alternative.

Although we agree that including life-cycle cost estimates in project prospectuses would be useful, we question whether realistic life-cycle estimates can be made at the time a prospectus is prepared. Under existing procedures, a specific site is selected and acquired and a building is designed only after the Congress has approved the prospectus for the project. It would be difficult to compute realistic life-cycle cost estimates before a site has been selected and design concepts have been prepared.

Item 6 requires a fully documented description of the expected socioeconomic and environmental impacts of a proposed project to be included with the prospectus when it is submitted for congressional approval. We believe these factors can not be assessed until GSA has selected a specific site and, as mentioned previously, sites are generally selected and acquired after the Congress approves prospectuses. Another approach would be to require that GSA submit an evaluation report to the Congress after the prospectus is approved but 30 days or more before the site is acquired. If congressional action is not initiated during the designated period, GSA could proceed with the acquisition.

We will be pleased to discuss our comments with you if you wish.

Sincerely yours,

Acting Comptroller General
of the United States