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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548



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Dear Senator Chiles:

This is in reply to your request of April 12, 1971, that we report on a statement made to you in a letter from Mr. F. J. Palmer that the Tennessee Valley Authority (TVA) sold land to the Deltona Corporation for \$511,600 although a higher offer of \$599,000 was made by a competing bidder.

Certain lands owned by TVA in the State of Florida were sold at public auctions on November 19, 1970, January 21, 1971, and March 25, 1971. The sale questioned by Mr. Palmer occurred on January 21, 1971, in Hernando, Florida. The public announcement for that sale listed 46 individual tracts and showed, for each tract, the estimated acreage and the minimum acceptable sale price. Also, the announcement stated that the sale procedures would be as follows:

"Each property will be offered separately. The auctioneer will identify each tract offered for sale by tract number, size, and general location and upon request will show a map of the property. When the auctioneer has concluded the offering of each tract separately and all bids on each separate tract have been received and recorded as to the name of the highest bidder and the amount of his bid, the auctioneer will request anyone present to offer to bid on combinations of tracts. The bidding on combinations accepted by the auctioneer for bidding will proceed at the new minimum price established by the auctioneer as a result of the prior bidding and will proceed until all such bids have been made and recorded as stated above. Finally, the auctioneer will ask for a bid on all of the tracts of land. When the bidding is concluded the auctioneer will determine which bid or bids, in his sole opinion, is most advantageous to TVA and will thereupon adopt such bid or bids as the final bid and declare the bidder or bidders, as the case may be, to be the purchaser or purchasers of the land."

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According to a memorandum prepared by the auctioneer (Mr. J. R. Perry, Chief, Land Branch, TVA), the January 21 sale proceeded as follows:

1. The 46 tracts were offered for bidding separately and bids were received on 24 tracts.
2. The auctioneer then invited the audience to suggest combinations of tracts for bidding.
3. A group, which included the Deltona Corporation, proposed a 36-tract combination and offered \$511,600 for the combination. Other combinations proposed involved 18 tracts for \$261,850, three tracts for \$101,000, two tracts for \$23,500, four tracts for \$53,000, eight tracts for \$74,000, four tracts for \$210,000, and seven tracts for \$197,500.
4. The auctioneer, upon analyzing the 36-tract combination proposed by Deltona Corporation, found that the combination included 11 tracts in which no interest had been manifested previously and concluded that many of the tracts included in the combination might not be sold unless in combination. Therefore he announced that he had determined that the 36-tract combination was the most advantageous to TVA and was accepted for bidding. Of the other combinations proposed, the auctioneer announced that the combination of seven tracts proposed by the Rainbow Springs Corporation involved the least overlap with any other combination and that he also would accept that combination for bidding. The Rainbow Springs Corporation and the group which included the Deltona Corporation were the highest bidders on the combinations they had proposed, and the properties were sold to them.
5. One of the bidders, a Mr. Kauffman, then stated that he wanted the record to show that his group would have bid \$599,000 for 30 tracts which he named for the first time as a combination. The auctioneer responded that some

of the tracts in the combination proposed by Mr. Kauffman had been sold and therefore were ineligible for inclusion in another grouping.

6. Mr. Kauffman then announced that he would take the names of any persons who wished to sue to have the sale set aside as being against the public interest.
7. The auctioneer concluded that, although some of the proposed combinations of tracts which were not accepted for bidding would have provoked keen competition, there was so much overlap with other combinations that the selection of any one combination would have led to charges of unfairness. Also he pointed out that successive selections of combinations of tracts would have compounded the situation and, in his judgment, would have led to chaotic conditions.

In a letter dated April 15, 1971, to a Congressman, the Chairman of the Board of Directors of TVA pointed out that the \$599,000 offer was not made on the 36-tract combination suggested by the group which included the Deltona Corporation. He stated, rather, that, after the 36 tracts had been sold, an individual at the sale wanted the record to show that a group of persons "would have" bid \$599,000 for a combination of 30 tracts, 26 of which were in the combination of tracts that had been sold to the Deltona Corporation group and four of which were in a group of seven tracts that had been sold to the Rainbow Springs Corporation.

We interviewed Mr. Palmer on May 4, 1971, and he provided us with a signed statement that he believed that, by accepting suggested bids of the small and medium bidders, more money could have been received by TVA. He further stated "I do not have factual support for this, however."

Also, on the basis of the class suit filed against TVA-- which was referred to in Mr. Palmer's letter--it appears that a principal complaint relates to the bidding procedure which allowed the bidders to suggest combinations of tracts for bidding.

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The complaint against TVA (71-5-CIV-OC) filed on February 8, 1971, in the District Court of the United States for the Middle District of Florida, Jacksonville Division, states, in part, that TVA performed the following wrongful acts.

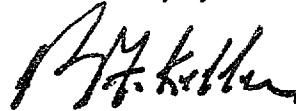
"(b) devised and implemented the 'combination' bid mechanism which by its nature and particular use herein rendered the true statutory mandates of 'public auction' and 'highest bidder' meaningless and virtually impossible to apply;

"(c) through the use of the 'combination' bid mechanism, granted the total and discretionary power to DELTONA and RAINBOW SPRINGS to end competitive bidding and any semblance of a public auction by the simple device of incorporating in their 'combination' bids a tract or tracts not bid upon by any member of the class in the individual tract bidding period; ***."

Since the legality of the bidding procedure appears to be at the heart of the suit filed against TVA and since the entire matter is currently before the court, it appears that the issues in question will be resolved by judicial action.

Pursuant to your request, we are returning the letter from Mr. Palmer.

Sincerely yours,



Deputy, Comptroller General
of the United States

Enclosure

The Honorable Lawton Chiles
United States Senate

900695
RELEASE OF GAO REPORTDATE: 12/14/78No. 79-55TITLE: Letter report concerning real property exchanges by the
General Services Administration (GSA)

PUBLICATION NUMBER:


B-NUMBER: B-165511

DATE: 7/14/71

ADDRESSEE: The Honorable Donald G. Brotzman
House of RepresentativesThe above ☐ report ☒ letter report has been released as follows:☒ To anyone requesting a copy.☐ To the individuals listed below only (This is not a blanket release).

Authorization for Release:

The Congressman is no longer in office.

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