

GAO

Report to the Honorable
Kent Conrad, U.S. Senate

September 1990

FACILITIES LOCATION POLICY

GSA Should Propose a More Consistent and Businesslike Approach





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

General Government Division

B-238787

September 28, 1990

The Honorable Kent Conrad
United States Senate

Dear Senator Conrad:

In response to your request, this report provides information and analysis to answer your specific question on (1) the policies that guide federal civilian agencies in selecting facility locations, (2) whether rural areas receive first priority in location decisions as required by the Rural Development Act of 1972, and (3) whether any changes in federal location policies are warranted.

As arranged with your office, we are sending copies of this report to the cognizant congressional committees, the Director of the Office of Management and Budget, the Administrator of the General Services Administration, and other interested parties.

The major contributors to this report are listed in appendix II. If you have any questions concerning this report, please contact me on 275-8676.

Sincerely yours,

A handwritten signature in cursive script that reads "L. Nye Stevens".

L. Nye Stevens
Director, Government Business
Operations Issues

Executive Summary

Purpose

The location of an organization's facilities has far-reaching and long-lasting impacts on such crucial elements as its operational costs and its ability to attract and retain workers. Changes in telecommunications technology in recent years have given employers more options to consider when locating sites for administrative functions. In consideration of these recent changes and the current budget situation, Senator Kent Conrad asked GAO to examine (1) how federal civilian agencies make location decisions, (2) the extent to which rural areas receive consideration in these decisions, and (3) whether any changes in federal location policies are warranted. (See pp. 10 and 11.)

Background

Congress and the executive branch have established federal facilities location policies intended to help promote economic development of both rural areas (the Rural Development Act of 1972) and the central business districts of cities (Executive Order 12072). Other federal policies, such as the Public Buildings Act requirement to assure an "equitable distribution" of projects throughout the nation, and a circular generally requiring the location of agency regional offices in 10 regional cities, also affect location decisions. (See pp. 8 to 10.)

Results in Brief

Although the Rural Development Act of 1972 requires agencies to give first priority to rural areas, it has not been an important factor in location decisions. Almost 88 percent of federal civilian workers are located in metropolitan statistical areas—an increase of 3 percent since 1980. Agencies that have grown during the last decade attributed mission demands or the need to be in areas where the populations they serve were located as the primary reasons urban areas received more facilities than rural areas. Political considerations, inertia, and short-term budget pressures also often affect location decisions in practice. Those agencies that did locate in rural areas said it was more because they served rural populations than because of their following the requirements of the 1972 act.

A growing number of corporations in the private sector have moved to suburban and rural settings. The private sector is taking advantage of incentives offered by localities to attract employers and of the ability to separate administrative functions resulting from changes in telecommunications technology.

GAO believes that federal agencies should more systematically consider locality incentives and technological advancements in making location

decisions and that a more consistent and cost-conscious federal location policy is warranted. The new policy should reflect a more businesslike approach in meeting agency mission and organizational needs by (1) requiring agencies to maximize competition in identifying potential facility locations; (2) comparing the costs and benefits of each, considering such factors as real estate and labor; and (3) selecting sites that meet the needs while offering the best overall value to the government. Some of the obstacles to such a change include the reluctance of agencies to move once they are established in a community and a traditional view that the government's role should be to promote economic development in either rural areas or central business districts of cities, regardless of its own economic interests.

Because the General Services Administration (GSA) is the central management agency responsible for governmentwide facility management policies, GAO believes the Administrator of GSA should develop a proposed location policy for congressional consideration that would provide broad guidance for agencies.

GAO's Analysis

Location Policies Followed by Growth Agencies

The agencies that experienced growth in full-time employment during the last decade have generally selected locations where the demand for their services was greatest, despite the policies set forth in the Rural Development Act of 1972 or Executive Order 12072. Several agencies said political considerations affected their ability to close and relocate facilities. (See pp. 12 to 15.)

Location Factors Considered by the Private Sector

The private sector generally views location decisions as labor market decisions. Headquarters operations are generally located in major metropolitan areas where professional and managerial personnel can be attracted. Administrative operations, characterized by clerical workers, are generally located in smaller cities that have lower labor costs.

Technological changes, such as fax machines and personal computers, have enabled the private sector to separate headquarters and administrative operations and have made less urbanized areas more attractive.

The private sector is also well attuned to the incentives, such as infrastructure development and training programs, that states and local communities offer to attract businesses. (See pp. 16 to 18.)

Urban Areas Can Be Costly

GAO's analysis of Washington, D.C., and the 10 standard federal regional cities—which together account for 30 percent of the total 1.8 million federal civilian workers—showed that the rental rates of central business districts averaged about 26 percent higher than the suburban areas of these cities.

Cost of living in 59 areas in the country with at least 5,000 white-collar federal workers varied but averaged 5 percent higher than the national average. Washington, D.C., and five of the 10 standard regional cities had even higher costs of living—some as high as 47 percent more than the national average.

Primarily because the private sector pays higher salaries than the federal government, the federal government is experiencing employee recruiting and retention problems, reduced service delivery, increased recruiting and training costs, more overtime pay, and the problem of higher level employees having to do lower level work. If enacted, recent congressional and Administration locality pay proposals will rectify these problems but will make some areas less costly to employ federal workers than others. (See pp. 18 to 20.)

Corporations Can Capitalize on Local Incentives

Localities routinely offer incentives to attract potential employers to their communities, but the government typically does not take full advantage of such incentives. GAO found one case, however, in which the Bureau of Engraving and Printing was able to generate widespread competition in meeting its space needs and was offered substantial concessions by communities. The Bureau received expressions of interest from 82 localities for an expansion facility, four of which offered no-cost land and buildings. It ultimately selected the Fort Worth, Texas, offer. The 100 acres of land and a building shell that were offered were valued at over \$12 million. Bureau officials were confident that similar deals could be obtained by other agencies if they sought them, due to the willingness of communities to attract employment opportunities. (See pp. 20 to 22.)

GSA Should Propose Governmentwide Policy

GSA, the central management agency for federal facilities, has responsibility for leadership, oversight, and guidance in facilities management. GAO, in its 1989 management review of GSA, reported that GSA had not effectively fulfilled its policy guidance and oversight role.

GAO officials said that because of political obstacles and GSA's belief that agencies should make their own location decisions, GSA has not assisted agencies in formulating procedures and specific guidelines to implement the various existing location policies. The lack of a clear location policy provides no counterbalance to the Office of Management and Budget and Members of Congress, who sometimes interject short-term budget or political objectives. This situation results in a general reliance on costly long-term leases or the construction of federal buildings in areas with low-priority needs. (See pp. 22 and 23.)

GAO believes that GSA should develop an alternative location policy that considers a more businesslike approach, so that Congress could consider whether factors such as the current and long-term budget implications, changes in office technology, and the movement toward locality pay, warrant endorsement of a revised policy. (See pp. 24 and 25.)

Recommendation

The Administrator of GSA should develop for congressional consideration a more consistent and cost conscious governmentwide location policy. This new approach should require agencies, in meeting their needs, to maximize competition and select sites that offer the best overall value considering such factors as real estate and labor costs. (See p. 25.)

Agency Comments

GAO discussed its findings and recommendation with GSA officials on September 13, 1990. GSA generally agreed with the report's overall message and recommendation but said the report's characterization of its lack of leadership did not reflect political constraints or the principle that agencies are better able than GSA to determine their facility needs.

GAO made some changes to the report on the basis of GSA's comments, including a more explicit recognition that political considerations are an obstacle to a consistent location policy. GAO does not believe that a more active policy role for GSA would require GSA to determine agency needs; rather, GSA would provide the framework for agencies to use in assuring that their needs are met with locations offering the best overall value to the government. (See p. 25.)

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Abbreviations

| | |
|------|--|
| BEP | Bureau of Engraving and Printing |
| BOP | Bureau of Prisons |
| CBD | central business district |
| DEA | Drug Enforcement Administration |
| EPA | Environmental Protection Agency |
| FBI | Federal Bureau of Investigation |
| GSA | General Services Administration |
| INS | Immigration and Naturalization Service |
| IRS | Internal Revenue Service |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| MSA | metropolitan statistical area |
| USDA | Department of Agriculture |

Introduction

For the past 20 years, Congress and the executive branch have attempted to set policies for locating federal facilities primarily from the perspective of promoting economic development in certain types of localities, such as rural areas or urban central business districts (CBD). Such policies do not always provide for the best financial interest of the government. Despite a requirement that first priority be given to rural areas, most federal jobs and facilities are located in metropolitan areas.

Federal Policies on Location Decisions

Several laws and executive branch orders and regulations frame the government's general policy on location decisions. The guidance sets forth certain objectives—including economic development of rural areas and CBDs—but does not always provide for the best financial interest of the government.

The Rural Development Act of 1972 requires all executive departments and agencies to “establish and maintain departmental policies and procedures giving first priority to the location of new offices and other facilities in rural areas.” Executive Order 12072, promulgated by President Carter in August 1978, requires that centralized community business areas be given first preference for locating federal facilities in urban areas. Economic development is the goal of both of these policies. The General Services Administration's (GSA) Federal Property Management Regulations require each agency to determine where its facilities are to be located and to assure that its location decisions are in compliance with the Rural Development Act of 1972 and Executive Order 12072, among other requirements. GSA says that it does not attempt to steer agencies to one area or another.

Other laws that apply to location decisions are (1) the Competition in Contracting Act of 1984, which requires that federal procurements be made using full and open competition and (2) the Public Buildings Act of 1959, which requires congressional authorization of large lease actions or construction projects by the House and Senate public works committees to assure an “equitable distribution” of such projects throughout the nation. Further, Office of Management and Budget (OMB) Circular A-105, issued in April 1974, generally requires that federal regional offices be located in 10 federal regional cities that are among the largest cities in the nation.¹

¹The 10 standard federal regional cities are Atlanta, Boston, Chicago, Dallas, Denver, Kansas City, New York, Philadelphia, San Francisco, and Seattle.

Once agencies determine the area where their facilities are to be located, GSA then obtains the space for them, either in government-owned or government-leased space. GSA's summary reports on owned and leased real property indicated that GSA provided space for federal employees in 2,884 government-owned and 4,225 government-leased buildings during fiscal year 1988.

Most Federal Jobs and Facilities Are in Urban Areas

Although the Rural Development Act of 1980 rescinded the requirement established by the Agricultural Act of 1970 to report on the location (rural or urban) of new federal offices and other facilities (and some data sources no longer use the terms urban and rural),² data that are available show that most federal jobs and facilities are in metropolitan areas.

Data from the Office of Personnel Management (OPM) indicate that in fiscal year 1989, 1.6 million full-time government civilian employees (excluding U.S. Postal Service employees) worked in metropolitan areas and 0.2 million worked in non-metropolitan areas. In fiscal year 1980, 1.5 million full-time government workers were in metropolitan areas and 0.3 million were in nonmetropolitan areas. As shown in table 1.1, while the civilian workforce grew slightly in the last decade, the net effect was a 7-percent federal employment increase in metropolitan areas and a 21 percent decline in nonmetropolitan areas.

Table 1.1: Civilian Federal Employment in MSAs and Non-MSAs, Fiscal Years 1980 and 1989

| | Fiscal year 1980 | Percent | Fiscal year 1989 | Percent | Percent change |
|--------------|---------------------|--------------|---------------------|--------------|-------------------|
| MSA | 1,504,573 | 85.0 | 1,610,083 | 88.5 | 7.0 |
| Non-MSA | 265,931 | 15.0 | 209,579 | 11.5 | -21.2 |
| Total | 1,770,504 | 100.0 | 1,819,662 | 100.0 | 2.8 |

Note: Excludes U.S. Postal Service employees.

Source: Office of Personnel Management.

Similarly, GSA data on the amount of space occupied by civilian agencies in 1988 indicated that 419 million square feet were in urban areas and 208 million square feet in rural areas.³ In fiscal year 1986, the government occupied 407 million square feet in urban areas and 185 million

²“Metropolitan statistical area” (MSA) has replaced “urban,” and “non-MSA” has replaced “rural.” See glossary for definitions.

³GSA had not yet compiled fiscal year 1989 data and said that data for years before fiscal year 1986 were no longer available.

square feet in rural areas. The amount of square footage grew from 1986 to 1988, both in urban and rural areas. (See table 1.2.)

Table 1.2: Total Square Footage of Buildings Occupied by Civilian Agencies, Fiscal Years 1986 and 1988

| Location ^a | Fiscal year 1986 | Fiscal year 1988 | Percent change |
|-----------------------------------|---------------------|---------------------|-------------------|
| Urban | 407,080,589 | 419,436,186 | 3.0 |
| Rural | 184,773,496 | 207,905,223 | 12.5 |
| Both urban and rural ^b | 28,555,308 | 33,418,790 | 17.0 |
| Not designated ^c | 164,861,472 | 194,013,209 | 17.7 |
| Total | 785,270,865 | 854,773,408 | 8.9 |

^aData excludes all U.S. Postal Service facilities.

^bBuildings reported with both urban and rural acreage.

^cBuildings not designated as either urban and rural.

Source: General Services Administration.

Objectives, Scope, and Methodology

As agreed with Senator Conrad's office, the objectives of our work were to (1) identify the policies that growing federal civilian agencies follow in choosing facility locations; (2) determine if rural areas receive first priority in such decisions; and (3) determine if any changes to federal location policies are warranted, considering policies followed by the private sector and changes in office and telecommunications technology.

To identify the federal location policies, we reviewed the laws and executive branch guidance affecting location decisions. We interviewed officials at the government's central management agencies—OMB, GSA, and OPM—and obtained their views on location policies. We also interviewed officials in eight civilian agencies that had grown in full-time permanent employment between fiscal years 1980 and 1989—the Department of Agriculture (USDA), the Bureau of Prisons (BOP), the Customs Service, the Drug Enforcement Administration (DEA), the Environmental Protection Agency (EPA), the Federal Bureau of Investigation (FBI), the Immigration and Naturalization Service (INS), and the Internal Revenue Service (IRS)—and discussed how they made location decisions.

To determine the rationale used for site selections, we reviewed actual and planned moves of data processing, payroll processing, teleservicing facilities, detention centers, and research and development laboratories for these agencies for fiscal years 1989 to 1991. We limited our work to these types of facilities because facility experts in government and the

private sector said they offered the most flexibility as to where they could be located.

Further, we reviewed the process followed by the Bureau of Engraving and Printing (BEP) to select an expansion facility in the western United States. GSA officials had identified the process the Bureau followed as unusually innovative.

To determine private sector policies on location decisions, we researched literature on this subject since 1985 and retained the services of a consultant—Real Estate Sciences International, Inc.—to assist us. Our consultant did a more extensive literature search, covering 1971 to the present; surveyed several corporations that made recent site selection decisions (Travelers Insurance, Citicorp, GTE, Rockwell, Mack Truck, and J.C. Penney) and several experts in the corporate real estate consultation field; and surveyed all 50 states to determine what programs they have to assist corporations in making location decisions.

To obtain an indication of where federal workers and buildings were located, we also reviewed data maintained by OPM on federal employment from 1980 to 1989 and data maintained by GSA on federally owned and leased space from 1986 to 1988. GSA did not have data available for 1989 or years before 1986.

We did our work from January to July 1990 in accordance with generally accepted government auditing standards. At your request, we did not obtain official agency comments on a draft of this report, but we did discuss our findings with GSA officials and included their views in the report.

Location Policies in Practice

The eight civilian agencies that experienced growth in full-time permanent employment during the last decade generally selected facility locations where the demand for their services was greatest, irrespective of the policies set forth in the Rural Development Act of 1972 or Executive Order 12072. These agencies, which are primarily engaged in law enforcement and revenue collection, generally selected sites in urban areas where the populations they serve were located. The agencies also located support facilities requiring little or no direct client contacts, such as computer operations and records management facilities, in urban areas in order to consolidate operations or to be near their operational centers.

Location Policies Followed by Growth Agencies

Generally, the eight agencies said the determinant factor in selecting locations was agency mission and that they selected locations where the demand for their services was greatest, which usually was in urban areas, irrespective of the Rural Development Act of 1972 requirement or the guidance in Executive Order 12072. OMB said that it has not enforced Circular A-105 regarding regional offices for many years because it was not a high priority in recent administrations. For the most part, agencies whose mission required them to be in rural areas specifically or urban areas specifically said they gave first priority to locations that fit this specific location need but not because of the policies and guidance in applicable site location law.

DEA said it selects field office sites by considering drug pattern usage, size of the city, and commuting distance to courts and local police departments. DEA said it is primarily concerned with apprehending major drug traffickers, and therefore locates its offices in major population centers and cities where local police forces are overwhelmed by drug traffickers. DEA said it has also established offices in more rural areas in Arizona and Washington to combat drug trafficking along U.S. borders.

BOP said it always tries to obtain sites near large population centers and where land is offered at no cost. To assure an adequate workforce to draw from and housing opportunities for its employees, BOP said it only considered cities with populations of 50,000 or more inhabitants.

Several agencies cited the location of the target population as the most important factor in selecting sites. BOP said it locates prisons in areas with growing inmate populations. IRS said the location of its district offices is dependent on the location of taxpayers. In recent years, this

has meant that IRS has opened offices in the West to meet the shift in population and the demand for services. The FBI also said that it establishes offices in areas with the greatest workload.

EPA's facilities are often specialized, such as facilities for research and development and environmental science laboratories, and are located near major universities. USDA's Federal Grain Inspection Service officials said they locate their offices near grain elevators. Similarly, Customs and INS officials said their offices are located at ports of entry into the United States.

Several agencies' officials also mentioned that political considerations affected their ability to close and relocate offices and facilities. DEA and IRS mentioned that more consideration is given to certain areas depending on the influence of local Members of Congress and their committee assignments. FBI said that political intervention caused it to keep open its Butte, Montana, office in spite of a decreased workload in that office. The office in Butte now primarily does word processing work for the FBI's San Francisco office, where word processing personnel are difficult to recruit due to relatively uncompetitive government wages in San Francisco.

FBI also said that low government wages were impeding its ability to retain employees for its Washington, D.C., Identification Division. FBI is in the process of finding a new location for the division in West Virginia. FBI said that a Member of Congress had approached the FBI Director with a proposal to relocate to West Virginia.

The factors the eight high-growth agencies said they considered in choosing sites for new facilities are listed in table 2.1.

Table 2.1: Facility Location Factors Considered by High-Growth Agencies

| Factors considered | USDA | BOP | Customs | DEA | EPA | FBI | INS | IRS |
|---|------|-----|---------|-----|-----|-----|-----|-----|
| Location of target population or clients ^a | X | X | X | X | | X | X | X |
| Political intervention | | | | X | | X | | X |
| Proximity to courts and local police | | | | X | | | | |
| Availability of no-cost land | | X | | | | | | |
| Infrastructure development of locality | | X | | | | | | |
| Proximity to major universities | | | | | X | | | |

^aIncludes agriculture storage facilities, inmates, ports of entry, drug traffickers, criminals, immigrants, and taxpayers

Actual and Planned Moves of Selected Functions

Because the mission of the primary offices of the eight agencies appeared to be directly related to their target populations, which were generally in urban areas, we asked the eight agencies detailed questions concerning any facility openings and relocations involving computer operations, cash and payroll processing, records management, and supply and warehouse storage for fiscal years 1989 to 1991. These functions are good candidates for location in rural areas since they require little or no direct client contact and can be done in many locations.

The surveyed agencies informed us of 10 planned or actual moves involving these functions for these years. All of the moves were to urban areas. The moves included relocating one computer center, four records management offices, and five warehouse and supply facilities.

DEA moved its records management operations and computer operations from Washington, D.C., to its headquarters in Arlington, VA, to consolidate operations in a central location and did not consider a rural area. IRS relocated two records management offices and two warehouse and supply facilities within urban areas that were close to its headquarters and major service centers, without considering rural areas. IRS said it locates records management and warehouse operations as close as possible to its main computing centers.

IRS is also planning to move three other warehouse and supply facilities to urban areas this year. Two of the warehouses are being expanded and will be located near existing IRS service centers. The third warehouse move involves an expiration of an existing lease.

The only planned move for fiscal year 1992 involves relocating FBI's records management division from Washington, D.C., to Hagerstown, MD. FBI said it considered communities within a 150-mile radius of Washington and selected Hagerstown based on travel time to headquarters, economic stability of the town, its slow growth, cost of living, appeal to transferees, and a labor market to support recruitment of several hundred employees.

Federal Location Policies Warrant Reconsideration

As indicated in chapters 1 and 2, existing federal location policies primarily are concerned with economic development of certain areas and may not be the determinant factors used by agencies to make actual location decisions. Factors considered by the private sector in making location decisions, the relatively high cost of urban areas where most federal facilities are located, and the potential benefits that can be achieved through wide competition, also indicate that current federal location policies need reconsideration. Further, changes in office technology also point to the possibility that current policies are out of date, particularly in light of the current budget situation.

Because one of GSA's roles as a central management agency is to set governmentwide facility management policies, GSA should develop a proposed locational policy for congressional consideration. Congress could then decide whether the current budget situation permits continuation of policies that give priority to local economic development over policies that would take a more competitive, businesslike approach.

Location Factors Considered by the Private Sector

Recent literature indicates that in the private sector, location decisions are viewed as labor market decisions. The private sector uses different criteria for locating "front" offices (or headquarters operations) and "back" offices (or administrative operations).

Front office location decisions are affected primarily by the ability to attract professional and managerial personnel. Companies consider such factors as the number of job opportunities available in a community for two-career families, cost of living, and quality of life. Also, the private sector considers access to various aspects of communications—such as travel time and distance to other operations, availability of air and mail services, and opportunities for professional "networking"—that are usually available in larger cities. Many front office relocations result from changes brought about by mergers or reorganizations that result in separation of headquarters from divisional functions. Changes in technology allowing the transmission of data over long distances—such as fiber optics, high-technology electronic switch systems, electronic mail, fax machines, personal computers, and modems—have also enabled the separation of headquarters functions from administrative functions and have made less urbanized areas more attractive to the private sector.

We found numerous examples of front offices being relocated from high-cost urban areas in part because of the inability to recruit and retain professional and managerial personnel; from small cities with limited

opportunities to develop business networks, few jobs for spouses, and limited lifestyles; and from areas with high real estate costs.

Back offices are characterized by customer service, claims processing, telemarketing, credit and accounting processing, and order processing operations. The majority of workers are in clerical positions. Minimizing labor costs is a major concern when locating back offices. Small cities are likely candidates for many back offices, especially those requiring little travel and support services. However, back offices that have a high percentage of professional and managerial employees and that require support services, large workforces, frequent travel, or use hardware requiring a high degree of technical service are more likely candidates for larger cities.

The corporate trend appears, in recent literature, to be in favor of locating back offices in small cities to get away from competition for labor in larger cities and to take advantage of lower space costs available in smaller cities.

Our consultant, Real Estate Sciences International, Inc., performed an extensive literature search, surveyed several major corporations and real estate experts, and asked all of the states about factors they considered in attracting the private sector. Twenty-six states provided information to our consultant. Our consultant identified the primary factors considered by the private sector in making location decisions (listed in app. I) and the following trends in the private sector:

- Labor issues, such as the availability of basic skills in the labor pool, workers' ability to train for specific functions, labor costs, and attitudes towards a work ethic, are among the most important factors facing business today.
- Many major metropolitan cities are becoming unattractive to the private sector because of their shrinking supply of skilled labor, deteriorating infrastructure, poor school systems and lower educational levels of workers, traffic congestion, excessive real estate costs, high taxes, business regulation, and high crime rates.
- Nonmetropolitan locations often offer more potential for higher worker productivity, lower space costs, higher quality of life for employees, proximity to both managers' homes and quality higher education institutions, and lower operating costs.
- Transportation systems, whether airports, highways, railroads, or waterways, are important to locational decisions for both manufacturing and service industries.

- Virtually all state and local communities now offer incentives, such as funding for infrastructure development, training programs, promises to provide qualified labor, or reduced taxes, to attract businesses. These incentives usually become a deciding factor when companies are unable to differentiate among acceptable alternatives.
- Metropolitan areas for headquarters offices are still favored by many service-oriented corporations, such as insurance companies, financial institutions, brokerage and financial advisory organizations, communications and utilities firms, and general business service organizations, because they can offer prestige locations and easy access to major clients and support services.

Urban Areas Can Be Costly

Although many location decisions of agencies—particularly the high-growth agencies that are involved with law enforcement and revenue collection—often require the government to locate in large metropolitan areas, costs could still be reduced by selecting sites in non-central business districts or in the more suburban areas of cities.

We analyzed the average commercial rental rates for office space in the 10 federal regional cities and Washington, D.C. As shown in table 3.1, rental rates for CBDs averaged \$24.83 per square foot, which was \$5.09, or about 26 percent, higher than the non-CBD average rate of \$19.74. The CBD rate was higher than the non-CBD rate in 9 of the 11 cities.

We also analyzed cost-of-living data for these cities. We used cost-of-living data obtained by a consultant for our work on comparability pay, which was gathered for 59 areas in the country, each with at least 5,000 white-collar federal workers. The cost-of-living index for all 59 cities averaged 1.05, or 5 percent higher than the national average. As shown in table 3.1, Washington, D.C., and five of the standard regional cities had cost-of-living indexes higher than 1.05, and the average index of the 11 cities was 1.14, or 14 percent higher than the national average. Of the total 1.8 million civilian government workers, 0.6 million, or about 30 percent, work in these 11 cities.

Table 3.1: Rental and Cost-Of-Living Rates for Selected Urban Areas

| City | Employee cost-of-living index ^b | Average rental rates per square foot for commercial space ^a | | |
|------------------|--|--|---------|------------|
| | | CBD | Non-CBD | Difference |
| Atlanta | 1.03 | \$21.56 | \$20.32 | \$1.24 |
| Boston | 1.33 | \$32.00 | \$22.00 | \$10.00 |
| Chicago | 1.14 | \$35.00 | \$24.00 | \$11.00 |
| Dallas | 0.97 | \$15.50 | \$13.50 | \$2.00 |
| Denver | 0.97 | \$11.00 | \$12.50 | (\$1.50) |
| Kansas City | 0.98 | \$18.00 | \$18.00 | \$0.00 |
| New York | 1.47 | \$42.52 | \$35.22 | \$7.30 |
| Philadelphia | 1.14 | \$23.50 | \$17.00 | \$6.50 |
| San Francisco | 1.33 | \$25.01 | \$19.76 | \$5.25 |
| Seattle | 1.02 | \$19.77 | \$13.07 | \$6.70 |
| Washington, D.C. | 1.14 | \$29.24 | \$21.72 | \$7.52 |
| Average | 1.14 | \$24.83 | \$19.74 | \$5.09 |

^a1990 Guide to Industrial and Office Real Estate Markets, Washington, D.C.: Society of Industrial and Office Realtors, 1990.

^bPlan on Living Cost Standards, a report provided to GAO from Runzheimer International in April 1989. Runzheimer International is a management consultant group for travel and living costs, located in Rochester, Wisconsin. The cost-of-living data include housing, taxes, transportation, goods and services, and other expenses, based on a family of four earning \$30,000 annually, currently buying a home.

The labor market also affects the costs of location policies. We reported that the private sector paid more than the federal government about 90 percent of the time in over 60 metropolitan statistical areas for the 10 job occupations studied. These occupations were file clerk, stenographer, secretary, typist, computer operator, computer programmer, computer systems analyst, key entry operator, accounting clerk, and drafter.¹ The federal government's noncompetitive salary rates in these cities were cited by agency officials as the major cause of recruiting and retention problems, particularly in areas where nonfederal salary rates and the cost of living were the highest. Agency officials said these low salary rates also lead to high turnover rates, which cause numerous operational problems. These problems include reduced service delivery, increased recruiting and training costs, more overtime pay, and upper-level employees having to do lower-level work.

In response to the widening gap between federal and private sector salaries—which was estimated to be about 25 percent at the time of this report—the House Post Office and Civil Service Committee and Senate

¹Federal White-Collar Employee Salary Reform (GAO/T-GGD-90-22, Mar. 14, 1990), and Federal Pay: Comparisons With the Private Sector by Job and Locality, (GAO/GGD-90-81FS, May 15, 1990)

Committee on Governmental Affairs recently approved legislation that would create a more systematic annual adjustment process to prevent the overall pay gap from widening. The legislation would also institute a “locality pay” approach whereby federal white-collar salary rates would vary by geographic area. Federal blue-collar employees’ wages have differed by area for many years, on the basis of prevailing private sector wage rates in each area. The Bush Administration has advocated a similar proposal, but it initially is limited to New York, San Francisco, and Los Angeles.

The final outcome of such proposals remains to be settled. It is clear, however, that by locating employees in high-cost metropolitan areas, the government’s operational costs—either through lost productivity or in higher wages—are higher. An OPM official said that if locality pay is implemented, agency costs in some locations will increase and agencies will be forced to find a way to minimize costs.

Competition Can Help Agencies Capitalize on Local Incentives

Localities routinely offer incentives to attract potential employers to their communities. Because of the way the government usually obtains space—agencies determine where they want to locate and then have GSA obtain suitable space in that area for them—it typically does not take advantage of such incentives. We found one case, however, in which the government was able to create competition over a wide area for its space needs. As a result, this agency—BEP—received a substantial incentive.

BEP needed to expand its ability to print currency, which at the time of this report was all done in its Washington, D.C., facility. BEP made a decision to locate its expansion facility in the western area of the country, to help reduce currency shipment costs to western Federal Reserve Banks. Lacking construction funding and authority to build its own space, BEP initially sought to find an offeror who would lease space to the government for a 20-year period, after which the title to the facility would revert to the government. In 1985, BEP announced its plans and asked for interested parties in 13 western states for expressions of interest. BEP published its minimal needs and explained how offers would be evaluated. Among BEP’s needs were availability of labor, short distance to an airport that offered frequent flights to selected Federal Reserve Banks, and security requirements for the building.

BEP received expressions of interest from 82 localities. BEP screened this initial list of offers and went back to the 11 top-ranked offerors, who

were then asked to submit proposal packages addressing more detailed BEP project requirements. During this phase of the evaluation, BEP received four offers to donate land and a building from Fort Worth, Texas; Aurora, Colorado; Las Vegas, Nevada; and Pierce County, Washington. The Pierce County proposal did not include as much land as the other three and did not include the construction of the building. Therefore, the Pierce County offer was not considered further. BEP evaluated the other three offers in more detail and ultimately selected the Fort Worth offer. This offer included a donation of 100 acres of land and the construction of a building shell, both of which have been valued at between \$12.5 million and \$15 million.

BEP officials said that BEP will spend about \$110 million to complete the building, which is scheduled to become operational in January 1991. The annual operating cost of the facility is estimated to be between \$30 million and \$35 million, including salaries for about 300 workers in the Fort Worth area. BEP officials said that due to the willingness of communities to attract employment opportunities, they were confident that similar incentives could be obtained by other agencies if they sought them.

GSA officials said that a competitive procedure like the one BEP used would probably be beneficial to the government, especially for computer centers, warehouses, training facilities, and laboratories but would be harder to implement for regional offices and offices that have to serve particular clients. Although we agree with GSA in some respects, we think that when selecting a site for a regional office serving five states, for example, an agency should consider locations in all five states and select, among those offers that meet its needs, the one that offers the best overall value considering such factors as real estate and labor costs. Further, if an agency has to be located in a particular metropolitan area to serve its clients, it should not be expected to consider areas that will not meet its needs but should entertain offers from suburban and non-CBD areas within that metropolitan area.

The GSA officials also said that individual agencies would be better equipped to handle broad competitions than GSA, which is organized on a regional basis. The GSA officials also said that equal employment opportunity goals would have to be considered by agencies if they used procedures similar to the one used by BEP to make location decisions.

OMB officials also said that using competition to obtain local incentives offered some promise of reducing the government's space acquisition costs, but some Members of Congress would resist such a policy because

they view competition as contrary to the government's role of assisting local communities. They also said that agencies often cite relocation costs as an inhibitor to moving from a location but in reality the agencies do not really analyze long-term costs and benefits and due to inertia are reluctant to consider relocating. In addition, the OMB officials said that GSA needed to provide broad guidance to agencies on how to select facility locations.

GSA Should Propose Governmentwide Policy

GSA officials said that, because of political obstacles and GSA's belief that agencies should make their own location decisions, GSA has not assisted agencies in developing procedures and specific guidelines to implement the various existing location policies. As a central management agency, GSA has a responsibility in federal buildings management to provide leadership, oversight, and help in developing effective governmentwide management programs and policies. At least partly as a result of GSA's failure to exercise its leadership role in facility management policies, the government's ability to provide quality space for its employees at a reasonable cost has seriously diminished, particularly in recent years with large budget deficits.

In our management review of GSA last year,² we reported that GSA has had difficulty balancing its concurrent roles of making policy, providing oversight, and delivering services. We said that GSA's primary role should be to set governmentwide policy. We also reported that

- GSA has done little to provide the necessary leadership and guidance for effective governmentwide facilities management;
- Congress sometimes interjects itself into operational decisions by, for example, directing GSA to construct a new building in a specific location even though GSA had not identified that site for a new facility or had assigned a higher priority to other locations; and
- GSA should focus more attention on overseeing governmentwide facilities management functions—including those over properties not under its control—in view of changing technologies and the recognition that quality workspace affects performance and productivity of the government workforce.

²General Services Administration: Sustained Attention Required to Improve Performance (GAO/ GGD-90-14, Nov. 6, 1989)

More recently we testified on the government's ability to provide quality office space for its employees at a reasonable cost.³ In that testimony, we reported the following:

- One of the serious consequences of budget deficits has been to short-change the investment in facilities, people, and computers needed to efficiently maintain government operations.
- Pervasive shortfalls in financing the government's infrastructure needs threatens to compromise the ability of federal agencies to accomplish their missions.
- More than half of the government's buildings are more than 40 years old and some are in poor condition.
- GSA's lack of a comprehensive capital investment strategy leaves it in a weak position to guide federal facilities decisions and encourages others, like OMB, to substitute their own agendas, such as relying on costly long-term leases for most space needs.
- OMB has argued against capital investment initiatives over the years because it perceived a tendency for Congress to "pork barrel" the funds with little regard for maximizing return on investments.

Conclusions

Multiple laws and regulations guide federal agencies in selecting facility locations, but they do not always provide for consideration of the best financial interest of the government as a factor in the decision-making process. Some have a primary goal of providing economic development assistance to localities. For example, the Rural Development Act of 1972 requires agencies to give first priority to rural areas when considering any facility location, whereas Executive Order 12072 requires agencies to first consider central business districts for space in urban areas. Other policies that affect location decisions include those that require regional offices of agencies to be located in 10 standard federal regional cities, congressional authorization of large leases and construction projects to assure an equitable distribution of federal buildings throughout the nation, and agencies to use full and open competition when procuring property and services. GSA, the responsible central management agency, has not provided leadership to assist agencies in implementing and complying with these policies. In practice, agency location decisions seem to be guided more by politics and inertia than by governmentwide policy.

³The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1990).

Most civilian federal jobs and facilities are located in urban areas, which can have high real estate and operational costs. Agencies that have grown in the last decade, primarily those dealing with law enforcement and revenue collection, attribute the need to be in areas where they can best accomplish their missions or attend to the populations they serve as the primary reason urban areas receive more federal jobs and facilities than rural areas.

The private sector is more cognizant of cost considerations for both facilities and labor in deciding where to locate than the government. The private sector views location decisions primarily as labor market decisions. As a result of changes in telecommunications and automated data processing technologies, which make it easier for many operations to be done in dispersed locations, the private sector has been able to take advantage of economic benefits offered by suburban and rural locations.

Congress has primarily considered location policy as a means of stimulating economic growth in rural or urban areas. An alternative policy, which would give more emphasis to the need to conserve limited financial resources, would be to obtain locations—whether urban, rural, or suburban—that offer the best overall value to the government while still meeting its needs. Such a policy would (1) maximize competition; (2) where possible, take advantage of incentives offered by localities to attract jobs; (3) create a more businesslike approach to location decisions; (4) incorporate the effects of any future change to a locality pay concept; and (5) possibly reduce the impact of politics in such decisions. BEP's competition process for selecting a location for its new currency plant is a successful, but unique example of a government agency using this approach.

Because one of GSA's roles as a central management agency is to set policy for governmentwide facility management functions, we believe GSA should develop a proposed policy along these lines for Congress to consider. We realize that developing a revised location policy will not solve the broader capital investment problems facing GSA, but we believe it will be a step in the right direction in GSA's efforts to assume a greater governmentwide leadership role over facilities management.

Resistance to change—both because of agencies being reluctant to move once established in a community and because of the well established tradition that local economic development is a prime consideration in locating federal facilities—is an obstacle that a new policy would have to overcome. There are also possible impacts on the government's equal

employment opportunity goals involved in location decisions that the proposed policy would need to incorporate.

We also realize that some functions are better candidates for large area-wide competitions than others, but we believe that more competition for all space needs is possible. Thus, GSA should develop an alternative location policy that considers a more businesslike approach so that Congress can consider that policy in light of such factors as the current and long-term budget implications, changes in office technology, and the movement toward locality pay.

Recommendation

The Administrator of the General Services Administration should develop for congressional consideration a more cost conscious and consistent governmentwide location policy that would replace the requirements in (1) the Rural Development Act of 1972, (2) the Public Buildings Act of 1959, (3) OMB Circular A-105, and (4) Executive Order 12072. The new policy should reflect a more businesslike approach in meeting agency mission and organizational needs by (1) requiring agencies to maximize competition in identifying potential facility locations; (2) comparing the costs and benefits of each, considering such factors as real estate and labor; and (3) selecting sites that meet the needs while offering the best overall value to the government.

Agency Comments

We discussed our findings and recommendation with GSA officials on September 13, 1990. They generally agreed with the report's overall message and recommendation. However, the officials said our discussion of GSA's lack of leadership in location policy matters did not adequately reflect political constraints or GSA's attempts in recent years to be less "dictatorial" in its relationships with agencies. The officials said that since agencies are better able than GSA to determine their needs and to fit them to the various policy requirements and political considerations, our report should more clearly reflect that location decisions are the responsibility of the agencies. They also said that agencies should select locations that provide the best overall value to the government, not necessarily the lowest overall cost.

We made some changes to the report on the basis of GSA's comments. We recognized more explicitly that politics are often a factor in location decisions and that the objective of good facilities management is best value rather than lowest cost. We do not believe that our recommendation should make GSA more dictatorial over agencies or substitute GSA's

judgment for the agency's in determining facilities needs. On the contrary, a revised location policy should be developed in close collaboration with the agencies and should have as its objective consideration of broader geographic areas to meet agencies' self-determined needs.

Important Private Sector Locational Factors

Geographic location

- Sector of the country
- Urban/rural setting
- Larger city or town

Transportation systems

- Airport access/proximity
- Highway access/proximity
- Port access/proximity

Labor composition

- Availability
- Cost
- Skilled/unskilled attributes
- Work ethic

Proximity to special education

- Colleges/universities
- Technical schools/training

Energy/utilities

- Cost
- Availability and reliability
- Communication networks

Proximity to markets, services, and raw materials

Community incentives

- Tax
- Financing
- Other (including image building)

Community chemistry

- “Fit” with the corporation
- Local economy and taxes
- Environmental regulations

Land and building

- Cost
- Availability

Political issues

Appendix I
Important Private Sector Locational Factors

Quality of life

Housing availability/cost

Public schools

Cultural opportunities

Recreational facilities

Colleges/universities

Crime rate

Climate

Medical services

Police/fire and environment

Spousal opportunities

Goods/services

Cost of living

Future real estate value/markets

Source: Real Estate Sciences International, Inc.

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Glossary

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| MSA | An area with a city of at least 50,000 population or any urbanized area of at least 50,000 with a total metropolitan population of at least 100,000, together with adjacent counties with a high degree of economic and social integration with the main nucleus. (OMB) |
| Non-MSA | No official definition. OMB considers any area not located in a MSA to be in non-MSA. |
| Urban | Any large cities and suburbs plus places of 2,500 or more inhabitants and other territory, incorporated or unincorporated, included in urbanized areas. An urbanized area consists of a central city or a central core together with continuous closely settled territory, which together have a total population of at least 50,000. (U.S. Bureau of the Census) |
| Rural | <p>Any area not classified as urban area constitutes a rural area; the open countryside area and places with fewer than 2,500 inhabitants that are not in the suburbs of large cities. (U.S. Bureau of the Census). However, the Rural Development Act of 1972 defines rural as any area in a city or town with a population less than 10,000 inhabitants.</p> <p>Note: Section 401 of the Rural Development Act of 1972 amended Section 901 (b) of the Agricultural Act of 1970, by changing areas of “lower population density” to rural areas. The Agricultural Act of 1970 considered areas of lower population density to be areas located in a county not in a Standard Metropolitan Statistical Area or any city located in a Standard Metropolitan Statistical Area, which, along with its continuous urban areas, has a population of 35,000 inhabitants or less.</p> |

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