

GAO

Report to the Chairman, Subcommittee  
on Public Buildings and Economic  
Development, Committee on  
Transportation and Infrastructure  
House of Representatives

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August 1998

# GENERAL SERVICES ADMINISTRATION

## Impact of Overestimation of Rental Revenue on the Federal Buildings Fund



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**General Government Division**

B-277993

August 17, 1998

The Honorable Jay C. Kim  
Chairman, Subcommittee on Public Buildings  
and Economic Development  
Committee on Transportation and Infrastructure  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review the General Services Administration's (GSA) actions in responding to and managing the recent funding problems experienced by its Federal Buildings Fund (FBF). Your request stemmed from a January 1997 GSA document that identified (1) the \$847 million shortfall in the FBF caused by an overestimation of revenues, (2) the reasons for the overestimation of the FBF revenues and attributed a specific dollar amount to each reason, and (3) various solutions required to remedy the problem.

As agreed, this report (1) summarizes information we developed to verify, to the extent practical, the amounts GSA attributed to each reason for overestimation of the FBF rental revenue projections for fiscal years 1996, 1997, and 1998; (2) discusses whether the Public Buildings Service's (PBS) corrective actions appeared to address GSA's identified reasons for the overestimation; and (3) discusses the budgetary impact of the overestimation on projects and programs in the FBF. In our March 1998 testimony we discussed these three issues.<sup>1</sup> This report discusses in more detail our findings on the third issue and recaps our findings on the first two issues.

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**Results in Brief**

In January 1997, GSA informed Congress that it expected the total overestimation of rental revenue for fiscal years 1996 and 1997 to be \$847 million. We verified, to the extent practical given available support, six of GSA's identified seven reasons for the overestimation and the linkage of specific dollar amounts of the overestimation to each of the six reasons. For example, GSA had documentation to support the \$209 million it attributed to fiscal year 1995 rental reductions in 18 metropolitan areas that had not been factored into its original estimates and the \$232 million it attributed to less leased expansion space being delivered, and at later dates than expected. GSA was unable to provide documentation showing

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<sup>1</sup>General Services Administration: Overestimation of Federal Buildings Fund Rental Revenue Projections (GAO/T-GGD-98-69, Mar. 5, 1998).

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how it developed the \$86 million it attributed to the remaining reason—the fiscal year 1995 rent revenue estimate being higher than actual revenues. In addition, we and others identified several weaknesses in GSA's rental revenue estimation process, such as the lack of documented policy and procedures for the rental revenue estimation process and the lack of supporting documentation necessary to verify forecast information and assumptions.

GSA has taken or plans to take corrective actions that, if effectively implemented, should help improve future rental revenue estimates. These actions include documentation of all decisions, assumptions, and steps involved in the rental revenue estimation process and implementation of a new information system with a revenue forecasting module.

For fiscal year 1997, GSA took action to prevent the overobligation of FBF revenue by creating a reserve to ensure that obligational authority totaling \$680.5 million would not be used until revenue was available to cover those obligations. This action had the potential to affect the projects and programs from which obligational authority was withheld. The \$680.5 million included unobligated funds at the end of fiscal year 1996 and the beginning of fiscal year 1997 from four budget activities: \$176 million in unobligated funds in rental of space, building operations, and installment acquisition payments balances; and \$504.5 million of the unobligated funds appropriated for construction and acquisition of facilities. The construction projects that amounted to \$504.5 million were projects that, based on GSA officials' analyses, would not be ready for contract award during fiscal year 1997. The information we obtained indicated that only one of the projects was delayed because its funds were put in the reserve. The award of the construction contract for that project—the Las Vegas, Nevada, courthouse—was delayed about 3 weeks, from September 26, 1997, to October 16, 1997. According to the project manager, this delay had no impact on the cost of the construction contract.

Recent statements by GSA and Office of Management and Budget (OMB) officials indicated that the impact of the rent estimating problem on the FBF will be resolved by actions taken through the fiscal year 1998 budget. Although the \$680.5 million appropriated in fiscal year 1998 replenishes the \$680.5 million to prior projects, we do not believe it necessarily mitigates the effects of not funding GSA's proposed fiscal year 1998 program of new construction and modernization work. That is, the FBF could incur cost changes to complete the proposed fiscal year 1998

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program if it is subsequently approved, depending upon general and local economic and construction industry conditions when projects are undertaken. Further, GSA has stated that the overestimation problem contributed to a reduction in funding for building operations and basic building repair and alteration. This reduction could also result in changes in future costs for the same reasons previously mentioned as well as increased repair costs due to more extensive deterioration over time.

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## Background

The FBF, which is administered by GSA, is an intragovernmental revolving fund authorized and established by the Public Buildings Amendments of 1972. Beginning in 1975, the FBF replaced appropriations to GSA as the primary means of financing the operating and capital costs associated with federal space owned or managed by GSA. GSA charges federal agencies rent, and the receipts from the rent are deposited in the FBF. Congress exercises control over the FBF through the appropriations process that sets annual limits on how much of the fund can be expended for various activities. In addition, Congress may appropriate additional amounts for the FBF.

The FBF operates as follows. Initially, as part of the President's budget preparation process, GSA estimates the rental revenue the FBF is expected to receive. The rent estimate is prepared about 18 months in advance of the fiscal year. Through the appropriation process, Congress establishes annual limits on how much of the fund can be expended for various activities. As revenues are received, they are deposited into the FBF, and, subsequently, GSA is to fund various projects and programs within the limits set by Congress. Descriptions for some of these budget activities are shown in table 1.

**Table 1: FBF's Five Main Budget Activities**

<b>Budget activity</b>	<b>Description</b>
Construction and acquisition of facilities	Funds construction and/or acquisition of new facilities commensurate with the demand for new space from PBS client agencies.
Installment acquisition payments	Funds payments of principal, interest, and other required obligations for facilities financed under either the 1972 purchase contract program or the 1987 installment (lease) purchase program
Rental of space	Funds leasing costs, provides for recurring rent increases, and provides a very small amount of expansion space in support of repair and alteration projects.
Repairs and alterations (modernization)	Funds both major modernization and small projects designed to ensure the day-to-day operational continuity of owned facilities and provide for essential work preserving capital assets.
Building operations	Funds the operation of government-owned facilities and the related building services where the terms of the lease do not require the lessor to furnish such services.

Source: PBS Office of Financial and Information Systems.

## Objectives, Scope, and Methodology

Our first objective was to verify, to the extent practical, the amounts GSA attributed to the individual reasons for overestimation of the FBF rental revenue projections for fiscal years 1996, 1997, and 1998. To do this, we developed an understanding of the rental revenue estimation process that PBS used. We (1) discussed with PBS program officials and staff the basic steps involved in the process used for fiscal years 1996 through 1999; and (2) reviewed studies of the process done by an internal PBS review team, two consulting firms, and GSA's Inspector General. Further, we examined documents that supplied supporting details, such as a PBS listing of buildings associated with a particular reason, and we discussed each reason for the overestimation and the amount attributed to it with PBS program officials and staff.

Our second objective was to determine whether PBS' corrective actions appeared to address GSA's identified reasons for the overestimation. We also determined if the corrective actions addressed the weaknesses in the estimation process that we and others identified. To do this, we interviewed PBS officials and staff, reviewed documentation associated

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with the actions, and observed the operation of a new management information system PBS is developing to help it estimate rental revenues, among other things. On the basis of our knowledge of the estimation system and the proposed or actual corrective actions to the system, we determined whether the corrective actions appeared to address GSA's identified reasons for the overestimation and other identified weaknesses.

Our third objective was to determine the budgetary impact of the overestimation on projects and programs in the FBF. To accomplish this, we developed an understanding of the process by which PBS identified sources of obligational authority that had the potential for inclusion in the fiscal year 1997 obligational reserve. Specifically, through interviews with PBS officials and review of documentation they maintained about the process, we developed an understanding of how PBS became aware of the magnitude of the overestimation problem—\$680.5 million—and the action those officials took to identify specific sources of obligational authority.

We reviewed the process that PBS used to identify unobligated balances that could be included in the reserve. Both new construction and modernization projects potentially could be included because such projects were experiencing delays that made it unlikely that they would need the obligational authority available in fiscal year 1997. We further developed information on how PBS officials narrowed the pool of potential new construction and repair and alteration projects to the final 11 new construction projects included in the reserve.

Concerning the sources of the unobligated fiscal year 1996 balances included in the reserve, we obtained both the regional and headquarters final fiscal year 1996 allowances and the end-of-year obligated balances. However, we did not verify the data on allowances and the end-of-year obligated balances with regional officials or regional records. Finally, PBS headquarters officials provided us with the reasons they believed the unobligated balances existed.

In reviewing the budgetary impact of the overestimation on projects and programs, we determined if PBS' claim that none of the new construction projects included in the reserve were delayed from awarding a construction contract because they were included in the reserve. We did so by discussing the projects with PBS headquarters and regional officials as well as staff of the Administrative Office of the United States Courts (AOUSC) to obtain general background information on the projects and the dates and reasons given for schedule delays. We did not do a detailed

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review of the project files or the history of the projects before they were included in the reserve.

Also, we reviewed the GSA and OMB statements that the impact of the funding problem on the FBF would be eliminated by the end of fiscal year 1998. We verified that GSA had proposed a fiscal year 1998 program of new construction and modernization projects and that GSA's fiscal year 1998 appropriation did not provide obligational authority for that program. We discussed the impact of the deletion of funding for new construction projects with AOUSC officials to identify the impact on the courts' immediate and long-range construction programs because the courts' projects constituted the bulk of PBS' proposed \$594.5 million in fiscal year 1998 funding for new construction. We did not attempt to estimate the dollar impact on specific projects as a result of lack of fiscal year 1998 funding because GSA's proposed program of projects may have been altered by OMB and congressional reviews prior to obligational authority being provided in GSA's appropriation law.

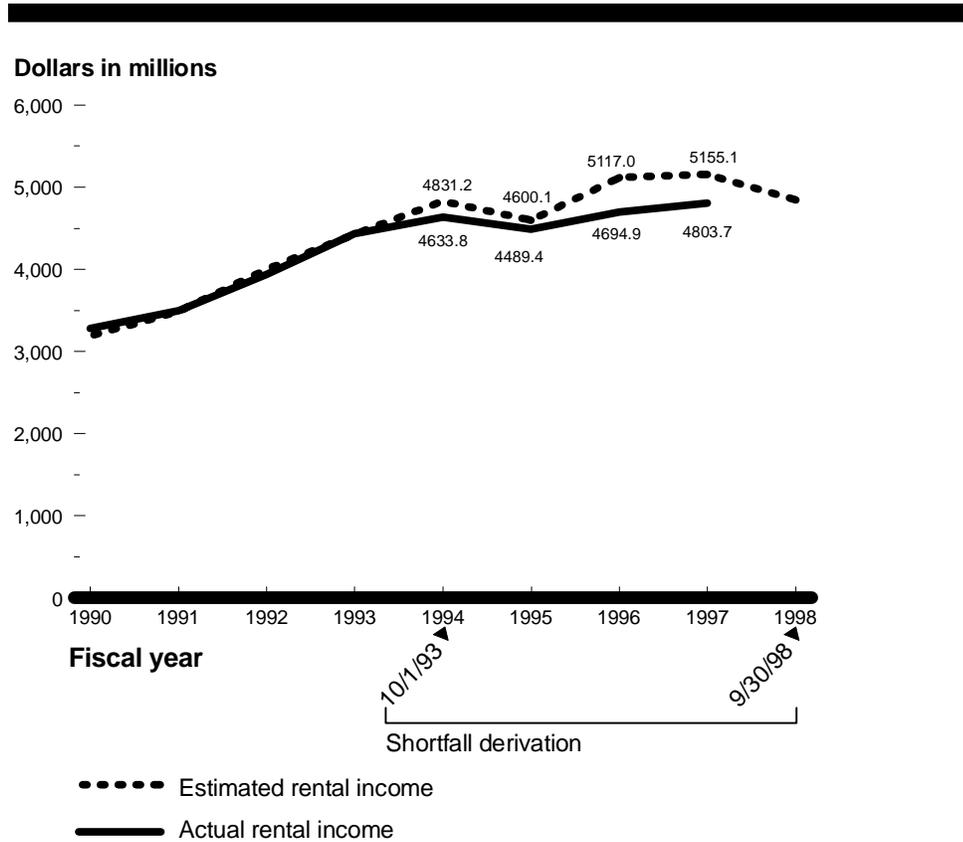
We did our work primarily at GSA headquarters in Washington, D.C., between July 1997 and June 1998, in accordance with generally accepted government auditing standards. On July 30, 1998, we requested comments on a draft of this report from GSA's Administrator. GSA's comments are discussed at the end of this report.

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## **PBS' Overestimation of Rental Revenue and Its Corrective Actions**

Beginning with fiscal year 1994 and continuing through fiscal year 1997, PBS' actual annual rental revenues were less than the estimated rent revenue PBS projected for budget and appropriation purposes. PBS, in fiscal year 1997 and 1998, took two actions to deal with the overestimation. First, PBS refrained from using about \$680.5 million in obligational authority that Congress had previously provided. Second, PBS reduced operating expenses by deferring planned expenditures until later years. It also took steps to address the weaknesses that were identified in the process used to estimate rental revenues for the budget. Figure 1 shows FBF's estimated and actual income for fiscal years 1990 through 1997.

**Figure 1: the FBF Estimated and Actual Income, (Fiscal Years 1994-98)**



Source: GSA data.

The FBF’s actual rent revenue has grown from about \$2.5 billion in fiscal year 1987 to about \$4.8 billion in fiscal year 1997. GSA’s historical trends of estimated rental revenue versus actual rental revenue show that actual rental revenues were less than estimated rental revenues for each of fiscal years 1994 through 1997, by amounts ranging from about \$110.7 million, or 2.4 percent of the estimate in fiscal year 1995, to about \$422.1 million, or 8.2 percent of the estimate in fiscal year 1996. For fiscal years 1994 and 1995, PBS’ overestimation of rental revenue was a combined total of \$308.1 million. According to its Chief Financial Officer in fiscal years 1994 and 1995, PBS absorbed the overestimation by reducing planned expenditures and using unobligated carryover balances without the need for congressional action.

In January 1997, PBS informed Congress that it expected its total overestimation of rental revenue for fiscal years 1996 and 1997 to be \$847 million. As shown in table 2, PBS identified seven reasons for the overestimation and linked specific dollar amounts to each reason.

**Table 2: PBS' Reasons for the Overestimation of Revenue for Fiscal Years 1996-97 (as of January 1997)**

Dollars in millions	
Reason for overestimation	Amount
Less leased expansion space was delivered than was expected, and at later dates than expected.	\$232
Fiscal year 1995 rental reductions in 18 metropolitan areas were not factored into the original estimates.	209
Estimates of the effect of government-owned space increases were too high.	142
The fiscal year 1995 rental revenue estimate was generally higher than actual fiscal year 1995 revenues. Because of the timing of the budget, these higher estimates were used as the basis for fiscal years 1996 and 1997 projections.	86
Assumptions concerning the costs of leased and government space were changed to make them less conservative.	82
A technical error was made in calculating the effect of indefinite authority in the rental of space.	66
Rental revenue decreases from buildings, or portions of buildings, becoming unoccupied were not factored into the original estimate.	30
<b>Total</b>	<b>\$847</b>

Source: GSA officials.

In July 1997, PBS increased the overestimation figure for fiscal year 1997 by \$86.8 million and reported a potential overestimation in fiscal year 1998 of about \$109.2 million. As a result, the total anticipated overestimation for fiscal years 1996 through 1998 was about \$1.04 billion. However, after it closed its fiscal year 1997 books, PBS reported the actual budget impact of its overestimation to be \$634.4 million for fiscal years 1996 and 1997 and reduced its fiscal year 1998 overestimation to \$28.3 million.

In our March 1998 testimony on PBS' overestimation of the FBF rental revenue projections, we reported that PBS provided documentation supporting the amount of the overestimation for six of the seven reasons shown in table 2.<sup>2</sup> Although we examined the documentation PBS provided to explain its overestimation, we did not trace all the data compiled by PBS back to the original source documents. PBS could not provide documentation showing how it developed the \$86 million attributed to the

<sup>2</sup>GAO/T-GGD-98-69, Mar. 5, 1998.

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reason that the original fiscal year 1995 rent revenue estimate was higher than actual fiscal year 1995 revenues.

We also reported in our testimony that during the course of our work, we determined that weaknesses in PBS' estimation process contributed to the rental income overestimation. Through discussions with PBS staff and review of studies done by (1) the firms of Ernst and Young and Arthur Andersen—consultants hired by PBS, (2) the GSA Inspector General, and (3) the Rent Revenue Forecasting GO Team—an internal GSA review team established to look at PBS' rental revenue estimation process—we identified several weaknesses in the process for estimating rental revenues. These weaknesses included the following:

- lack of documented policy and procedures for the estimating process;
- unclear lines of responsibility and accountability for revenue estimates below the level of the PBS Commissioner;
- lack of supporting documentation necessary to verify forecast information and assumptions; and
- use of national averages, rather than project-specific data, to forecast occupancy schedules and rental rates.

Finally, we reported that GSA was aware of the identified weaknesses in its revenue estimation process and had corrective actions to improve this process either already under way or planned. These corrective actions included the following:

- Documentation is to be required for all decisions, assumptions, and steps involved in the rental revenue estimation process.
- The Office of Financial and Information Systems, with overall responsibility for the rental revenue forecasting process, was established.
- Project-specific data is to be used in occupancy schedules and rental rates instead of national averages.
- A new information system is being implemented to manage, track, and access data, with plans for a revenue forecasting module to be added to the system.

We concluded that it appeared that the actions PBS had under way and planned to improve the process it uses to estimate rental revenue address the weaknesses that we and others had identified. If effectively implemented, these actions should help improve future revenue estimates. However, as PBS points out, because its rental revenue estimate is a forecast, it is unlikely to produce a figure that is identical to actual rental

revenue. Although some variance is to be expected in any estimating process, variances that go beyond a certain level can be indicative of estimating problems that need to be addressed.

In this regard we stated in our testimony that PBS had not established an acceptable margin of error against which it could measure the success of its estimation process. We said that having such a benchmark would put PBS in a better position to identify variances that need to be investigated so that it can explore and fix the causes of excessive variances, improve its estimation process, and determine its effectiveness over time. We recommended that the PBS Commissioner establish an acceptable margin of error for its rental revenue estimates, as well as a process for exploring and resolving causes of variances outside the margin adopted. In a letter dated June 11, 1998, the GSA Administrator notified us that PBS had established 2 percent as a reasonable margin of error and is developing a reconciliation process. Considering the need to prepare estimates 18 months in advance and the steps involved in the estimating process, such as identifying revenue changes for each building, 2 percent does not seem to be an unreasonable margin of error.

## Actions Taken by PBS in Fiscal Year 1997 to Ensure Obligational Integrity of FBF

In late spring 1996, PBS identified a potential revenue gap for fiscal years 1996 and 1997. During fiscal year 1997, PBS officials acted to address the FBF overestimation problem by preventing the use of the FBF obligational authority that could not be met from the FBF resources. PBS determined the size of the obligational authority that was in excess of the FBF resources using both actual fiscal year 1996 operating data and estimates for fiscal year 1997 (see table 3).

**Table 3: the FBF Resources Shortfall (as of January 1997)**

Dollars in millions			
	Actual FY 1996	Estimated FY 1997	Total
New obligational authority	\$5,114.7	\$5,510.6	<sup>a</sup>
Resources available	4,817.8	5,127.0	<sup>a</sup>
Authority in excess of resources	296.9	383.6	<b>\$680.5</b>

<sup>a</sup>Not applicable

Source: Office of the PBS Chief Financial Officer.

To address the \$680.5 million in obligational authority in excess of available resources, PBS officials created an obligational reserve at the

beginning of fiscal year 1997. The intent of the reserve was to ensure that available obligational authority would not be used until revenue was available to cover those obligations. The reserve was composed of funds from the four FBF budget activities, as shown in table 4.

**Table 4: the FBF Obligational Reserve by Budget Authority**

Dollars in millions	
<b>Budget activity</b>	<b>Reserve amount</b>
Installment acquisition payments	\$12.0
Rental of space	\$68.0
Building operations	\$96.0
Construction and acquisition of facilities	\$504.5
<b>Total</b>	<b>\$680.5</b>

Note: After creating the initial reserve, Congress directed PBS to transfer \$54 million from the rental of space reserve. PBS replaced the \$54 million with \$54 million from the construction and acquisition of facilities budget activity, thus adjusting the reserve amounts to \$14 million from rental of space and \$558.5 from construction and acquisition of facilities.

Source: PBS Office of Financial and Information Systems.

## Process Used to Establish the Reserve Amounts

To identify sources of obligational authority that could potentially be included in the reserve, PBS officials told us that they initially identified the FBF activities that had unobligated balances at the close of fiscal year 1996. As a result of those efforts, PBS officials identified and included in the reserve \$176 million. To identify the additional \$504.5 million needed for the reserve, in October and November 1996, PBS officials analyzed the FBF new construction and acquisition, and repair and alteration budget activities. They identified 11 new construction projects, with \$591.6 million in unobligated funds, for inclusion in the reserve. Details of the sources of the funds included in the reserve are discussed below.

## Installment Acquisition Payment Amount

To fund development of some facilities, PBS initially borrows the required funds and subsequently makes regular payments to the lender. The FBF spending authority that funds these annual payments is the installment acquisition payment budget activity. In fiscal years 1996 and 1997, the new obligation authority appropriated for this budget activity amounted to about \$182 million and \$173 million, respectively.

PBS officials told us that when they initially reviewed the various FBF budget activities for available fiscal year 1996 unobligated balances, the

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installment acquisition payment budget activity had an unobligated balance of about \$12 million. We discussed the reasons for this unobligated balance with PBS officials who told us that it was partially a result of lower interest rates for short-term construction loans on projects and for the long-term 30-year notes on the facilities. In addition, they told us that total interest needs were lower than they had budgeted for because the projects had been slower to use borrowed funds. They said that their estimates of both interest rates and the rate at which funds would be needed by projects had projected higher interest costs than actually were incurred. Therefore, the budget activity had closed the fiscal year with an unobligated balance.

The PBS officials told us that the \$12 million pertained to transactions involving the following nine lease-purchase projects.

- Foley Square, New York;
- Woodlawn, Maryland, Health Care Financing Administration;
- Chamblee, Georgia, Centers for Disease Control Offices;
- Memphis, Tennessee, Internal Revenue Service;
- Atlanta, Georgia, Centers for Disease Control;
- Miami, Florida, Federal Building;
- Chicago, Illinois, Federal Building;
- Oakland, California, Federal Building; and
- District of Columbia, Ronald Reagan Federal Building and International Trade Center.

They told us that without a detailed funding analysis of each project, including the funding used versus what was budgeted and the interest rate incurred versus what was budgeted, they could not assign portions of the unobligated balance to each project.

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**Rental of Space Reserve Amount**

PBS officials told us that when they initially reviewed the various FBF budget activities for unobligated balances at the end of fiscal year 1996, the rental of space budget activity had an unobligated balance of about \$71 million, an accumulation of fiscal years 1995 and 1996 unobligated balances. They said \$68 million of the \$71 million would be used as part of the reserve.

PBS officials told us that having an unobligated balance in a budget activity is not unusual because regional offices do not have to obligate the entire allowance they receive. Regarding the specific reasons why the rental of

space budget activity had an unobligated balance at the close of fiscal year 1996, PBS officials cited incorrect estimates of when leases would start to incur obligations so that lease payments were lower than anticipated. Another reason provided by PBS officials involved the number of lease cancellations.

They said there were more cancellations than PBS had budgeted, which resulted in lower obligations. However, they were not able to provide specific dollar amounts by lease. Rather, PBS officials provided us with a breakdown of the fiscal year 1996 regional allowances and unobligated balances (see table 5).

**Table 5: Rental of Space, Unobligated Balances (as of Close of Fiscal Year 1996)**

Dollars in millions	
GSA region	Unobligated balance
1	\$0.68
2	0.86
3	1.52
4	6.90
5	0.22
6	0.52
7	3.56
8	2.11
9	4.15
10	2.25
11	1.96
Regional total	24.74
Central office	2.59
Unallowed <sup>a</sup>	43.47
<b>Total</b>	<b>\$70.80</b>

Note: Totals may not add due to rounding.

<sup>a</sup>“Unallowed” is the holdback in headquarters that can be given to regional offices but was not in fiscal year 1996.

Source: PBS Financial Services Division.

PBS staff advised us that although the actual figure, about \$71 million, was a little higher than the \$68 million included in the reserve, their plan at the time the reserve was established was to include only \$68 million in the reserve. However, events during fiscal year 1997 precluded using most of

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the \$68 million for funding of the reserve. In particular, in August 1997, PBS sought congressional approval to transfer about \$110 million in funds within the FBF budget activities to meet needs it considered crucial for rental of space. In September 1997, congressional committees approved the transfer request but directed that PBS use \$54 million in fiscal year 1996 unobligated balances, which was part of the reserve, to fund part of the transfer. PBS officials told us that the \$54 million was used in fiscal year 1997, and additional unobligated construction and acquisition of facilities budget activity funds were used to replace the \$54 million in the reserve to maintain full funding of the \$680.5 million reserve.

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## Building Operations Reserve Amount

PBS funds the operations of government-owned and -leased facilities and pays other government agencies for building operations performed by them in GSA-controlled facilities through the building operations budget activity. Functions budgeted from this activity include cleaning services, utilities, and protection services for facilities.

PBS officials told us that when they reviewed the budget activities at the close of fiscal year 1996, the building operations activity had an unobligated balance of about \$51 million. This was combined with \$45 million in unapportioned fiscal year 1997 funds for a total unobligated balance in the building operations budget activity of \$96 million. The officials explained that on a fiscal year basis, a portion of the overall appropriation available for regional building operations is divided into initial allowances against which regions plan and operate their programs. During a fiscal year, according to PBS officials, the initial allowance may be revised to reflect unforeseen needs. These adjustments are funded from money held back by PBS headquarters when the initial allowances are given to the regions.

PBS officials told us that the existence of an unobligated balance in a budget activity at the close of a fiscal year is not unusual because regional offices do not have to obligate the entire allowance they receive. At the end of fiscal year 1996, building operations' unobligated balance was about \$51 million. According to a PBS document, the balances were associated with delays in moves, deferred equipment purchases, delays in contract awards, delays in new workload coming on line, and savings achieved through cost-containment measures. This amount, along with \$45 million in unapportioned fiscal year 1997 funds, created an unobligated balance of \$96 million in the building operations budget activity. Table 6 presents the unobligated balance on a region-by-region basis.

**Table 6: Building Operations  
Unobligated Balances (as of the  
Beginning of Fiscal Year 1997)**

Dollars in millions	
Region	Unobligated balance
1	\$0.3
2	1.5
3	3.5
4	2.6
5	0.8
6	2.4
7	0.2
8	0.7
9	3.8
10	4.3
11	0.6
Regional total	20.7
Central office	30.3
Unobligated balance end of FY 96	51.0
FY 97 not apportioned <sup>a</sup>	45.0
<b>Total</b>	<b>\$96.0</b>

<sup>a</sup>According to a PBS official, this \$45 million is fiscal year 1997 appropriated budget authority, which OMB never apportioned; thus, it was unobligated.

Source: PBS Financial Services Division.

## Construction and Acquisition of Facilities Reserve Amount

According to PBS staff, the FBF's construction and acquisition of facilities budget activity involves large unobligated balances from year to year; and thus, this budget activity became the focus of planners for funding the balance of the \$680.5 million obligational reserve. According to PBS officials, early in fiscal year 1997 they were looking to identify about \$504.5 million in obligational authority to complete the reserve. Initially, PBS officials considered both the construction and the modernization programs in developing a list of potential projects for funding the reserve. They evaluated individual projects using the following three criteria.

- Project had not proceeded to construction contract award.
- Obligational authority for the project had not been allotted to a regional office for obligation.
- Both regional and headquarters officials believed the project would not meet a planned fiscal year 1997 construction contract award schedule.

As a result of their analysis, PBS officials developed a list of new construction and modernization projects with obligational authority totaling about \$1.5 billion. Recognizing that the list of potential projects resulted in obligational authority in excess of the \$504.5 million required, PBS officials told us that the decision was made to exclude modernization projects from the reserve and to focus solely on new construction projects. PBS officials pointed out that this decision provided enough funding for PBS' priority of maintaining the buildings already in the inventory.

Table 7 lists the new construction projects from which obligational authority was reserved, showing the project location, the amount of the full appropriation, and the amount available for reserve. PBS officials told us that the obligational authority reserved, \$591.63 million, represented their thinking of the funding necessary to meet the \$680.5 million before they knew how much would be available in end of the fiscal year unobligated carryover funds from other budget activities.

**Table 7: New Construction Reserve, Project Location, and Amount (as of November 1996)**

Dollars in millions		
Location	Appropriation	Reserve
Portland, Oregon, Consolidated Law Federal Office Building	\$36.19	\$31.44
Youngstown, Ohio, Courthouse	20.44	15.81
Maryland Federal Drug Administration Consolidation	146.92	32.77
Columbia, South Carolina, Courthouse Annex	43.85	40.85
Corpus Christi, Texas, Courthouse	30.61	24.16
Cleveland, Ohio, Courthouse	170.54	127.29
Brooklyn, New York, Courthouse	242.84	187.18
Blaine, Washington, Border Station	21.39	13.92
London, Kentucky, Courthouse	16.64	14.42
Las Vegas, Nevada, Courthouse	98.03	93.80
Washington, D.C., Southeast Federal Center	20.00	10.00
<b>Total</b>	<b>\$847.45</b>	<b>\$591.63</b>

Note: Totals may not add due to rounding.

Source: PBS schedule of new construction projects included in reserve.

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PBS officials told us that, as of November 1996, it was their opinion that each of the 11 projects listed above had a probability of experiencing a schedule slippage that would move the planned construction contract award date beyond fiscal year 1997. Therefore, they felt that reserving the obligational authority of these projects would not delay their overall progress. Our discussions with PBS officials, both in headquarters and the regional offices, and with officials of AOUSC confirmed that with one exception, discussed below, the schedule slippage on each project was sufficient to delay the construction contract award past the close of fiscal year 1997.

In the one instance where the delay was solely because the project's funding was moved to the reserve—the Las Vegas, Nevada, courthouse—the delay of the construction contract award was about 3 weeks, from September 26 to October 16, 1997. The GSA Project Manager told us that the delay did not affect the construction award amount because the contractor agreed to a contract at the price he bid in September 1997.

The scheduled construction contract award dates at the time each project was identified for possible inclusion in the reserve, the current construction contract award dates as of the spring of 1998, and reasons for the delays are presented in table 8.

**Table 8: New Construction Reserve and Schedule Delays**

Location	Original date <sup>a</sup>	Current date <sup>b</sup>	Reasons for delay
Portland, Oregon	TBD	On hold	No schedule in effect.
Youngstown, Ohio	TBD	On hold	Judiciary may not require project.
Montgomery and Prince George's Counties, Maryland	3-1-97	TBD	GSA contractor studying potential for public/private partnership to construct facility.
Columbia, South Carolina	6-30-97	12-20-98	Design delays and extra design effort to resolve floor-by-floor courtroom layout.
Corpus Christi, Texas	9-13-97	6-30-98	10% reduction in project budget, design schedule slippage owing to tenant changes, and architect/engineer delays and proposals for construction were over budget.
Cleveland, Ohio	TBD	Phase I 9-15-97 Phase II 6-98 Phase III 9-98	Delay owing to redesign for budget reasons.
Brooklyn, New York	8-21-97	May-June 98	Delay to incorporate security features when construction drawings 80% complete, coordination of bid documents, lawsuit settlement in September 1997, and removal of hazardous waste.
Blaine, Washington	7-26-97	5-1-98	Delay to divide procurement because of site conditions.
London, Kentucky	2-3-97	10-98	Delay because of procurement process being used, tight budget status of project.
Las Vegas, Nevada	8-18-97	10-16-97	Delay because of lack of funding from PBS headquarters and to add new security requirements to the plan.
Washington, D.C.	11-15-96	11-15-98	Delay because of lawsuit over environmental remediation, now settled.

Legend  
TBD - To be determined

<sup>a</sup>Original date: Schedule as of Nov. 13, 1996, list of potential reserve projects.

<sup>b</sup>Current date: Last scheduled date per PBS official as of the spring of 1998.

Source: PBS Nov. 13, 1996, list of potential projects, and PBS update of project data.

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## Restoration of Obligational Authority in Fiscal Year 1998 Could Create New Problems for FBF

Congress provided new obligational authority for the projects and programs in the \$680.5 million reserve for fiscal year 1998.<sup>3</sup> Therefore, the FBF revenues received in fiscal year 1998 are now available to be obligated for the budget activities used to create the \$680.5 million reserve in fiscal year 1997. OMB and PBS officials have stated that the actions taken through the fiscal year 1998 budget will eliminate the impact of the rent estimating problem on the FBF. However, as noted below, elimination of funding for new construction and modernization and reduced funding for building operations and basic building repair and alteration for fiscal year 1998 could have adverse effects on the FBF.

In September 1996, GSA submitted proposed new construction and modernization programs for fiscal year 1998 to OMB totaling about \$1.4 billion. However, according to GSA officials, OMB budget decisions required that \$680.5 million of fiscal year 1998 budget authority be used to offset the funds reserved in fiscal year 1997 so that previously funded projects could proceed. Congress appropriated no fiscal year 1998 funding for new construction or modernization. In addition, in discussing the impact of the fiscal year 1998 budget decision, a GSA official, in responding to a question during an April 24, 1997, congressional hearing, stated "Absent direct appropriations and with the requirement to earmark \$680 million in FY 98 Federal Building Fund budget authority to prior year capital projects, GSA will operate below prudent funding levels for building operations and repair and alterations for FY 98."

It is not clear how many, if any, of the proposed new construction or modernization projects would have been included in the President's budget or funded by Congress in fiscal year 1998 had it not been for the overestimation problem. However, to the extent the overestimation problem resulted in lack of funding for new projects and these proposed projects are funded in the future, the government could experience cost changes. For example, additional costs could occur from price changes in the future, which could, of course, vary depending upon general and local economic and construction industry conditions. In addition, delays in basic repair and alteration work could also result in additional future cost to the extent prices for these services increase in the future and to the extent delays cause further deterioration. The maintenance of government-owned assets has been a long-standing concern. In 1993, the U.S. Advisory Commission on Intergovernmental Relations reported that maintenance often does not receive adequate attention, especially in times of tight budgets, and that deferring maintenance can result in poor-quality

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<sup>3</sup>Treasury and General Government Appropriations Act, 1998, P.L. 105-61, 111 Stat. 1297.

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facilities, reduced public safety, higher subsequent repair cost, and poor service to the public.<sup>4</sup>

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## Conclusions

As we stated in our testimony on March 5, 1998, the actions PBS has under way and planned to improve its rental revenue estimation process address the weaknesses that we and others have identified and, if effectively implemented, these actions should help improve future revenue estimates.

The actions taken by PBS to establish an obligational reserve to prevent the overobligation of the FBF revenue did not delay 10 of the 11 new construction projects included in the reserve. The construction contract award amount for one project, which was delayed for about 3 weeks, was not affected by the delay.

Finally, although both OMB and PBS have stated that the impact of the FBF funding problem will be resolved by the end of fiscal year 1998, we believe that it could affect the FBF obligational authority beyond fiscal year 1998. We did not quantify the possible obligational impact; however, the delay in construction and modernization projects could result in price changes in the future, which could vary depending upon general and local economic and construction industry conditions. In addition, deferred maintenance could result in increased future cost.

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## Agency Comments

On July 30, 1998, we requested comments on a draft of this report from the Administrator, GSA. On August 6, 1998, we received oral comments from the Chief Financial Officer, Public Buildings Service, and other PBS staff. These officials generally agreed with the information in the report.

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We are sending copies of this report to the Ranking Minority Member of your Subcommittee; the Chairmen and the Ranking Minority Members of the Senate Committee on Environment and Public Works and the House Committee on Transportation and Infrastructure; and the Administrator of GSA. Copies will be made available to others upon request.

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<sup>4</sup>Deferred Maintenance Reporting: Challenges to Implementation (GAO/AIMD-98-42, Jan. 30, 1998).

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Major contributors to this report are Ronald King, Assistant Director; Thomas Johnson Evaluator-in-Charge; Thomas Keightley, Evaluator-in-Charge; and Hazel Bailey, Communications Analyst. If you have any questions about the report, please call me on (202) 512-8387.

Sincerely yours,



Bernard L. Ungar  
Director, Government Business  
Operations Issues

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