United States Government Accountability Office
Washington, DC 20548

February 20, 2009

The Honorable Eleanor Holmes Norton
Chairwoman
Subcommittee on Economic Development, Public Buildings,
and Emergency Management
Committee on Transportation and Infrastructure
House of Representatives

Subject: *Government Printing Office: Issues Faced in Obtaining a New Facility*

Dear Madam Chairwoman:

The main facility for the Government Printing Office (GPO) is inefficiently configured, aging, and much larger than needed. GPO has examined several options for obtaining a new facility, including leasing a new facility to be built on its current site while outleasing (leasing as a landlord) its property to partially offset operational costs. As requested, we reviewed (1) GPO's analysis of options to obtain a new facility and the extent to which GPO has followed leading practices for capital decision making and (2) issues, if any, that impede GPO's efforts to obtain a new facility. This report summarizes the results of our work that we provided to your staff during our February 5, 2009 briefing. Our briefing slides can be found in enclosure I.

Summary

GPO partially followed leading practices for capital decision making during analyses of options that it conducted in 2005 and 2008, but it did not conduct cost-benefit analyses that explored a full range of options for obtaining a new facility.

- While both of GPO's analyses considered innovative approaches for obtaining a new facility, several options were overlooked, such as reconfiguring the current facility. Comparing a wider range of options would help decision makers determine the most cost-beneficial way to obtain a new facility.
- In addition, although GPO identified some benefits of leasing a new facility to be built on its current site, GPO did not conduct cost-benefit analyses—systematic, quantitative assessments that take a broad, long-term view of future effects.
- Furthermore, in estimating operations costs, neither of GPO's analyses fully considers the effect of current labor and electricity costs. Instead, the analyses rely on industry benchmarks to estimate operations expenses. As a result, we believe that these analyses overestimate the savings to be gained from leasing a new facility.

According to GPO officials, several issues impede GPO's efforts to obtain a new facility.

- One key issue is GPO's lack of legislative authority to outlease property and retain and use the proceeds from an outlease. GPO would like to receive this legislative authority before it proceeds with additional analyses on obtaining a new facility. If GPO is granted legislative authority to retain and use the proceeds from an outlease but that authority is not linked to a specific proposal for GPO to acquire a new facility, decision makers may not have an opportunity to evaluate the potential effects of GPO's long-term plans. Alternatively, Congress could grant GPO outleasing authority only if it is needed to implement the best option—identified through a cost-benefit analysis--for obtaining a new facility.
- Another issue GPO would face if it were to outlease a facility is its lack of expertise in managing leases as a landlord. To its credit, GPO has already solicited the real property management expertise of the General Services Administration (GSA). GSA provides guidance to other agencies—such as the Armed Forces Retirement Home (AFRH)—in managing property and could guide GPO in complying with historic preservation, environmental, and federal and local planning requirements.

To conduct our work, we analyzed GPO studies and interviewed officials with AFRH, the Architect of the Capitol, GPO, the District of Columbia, GSA, the Commission of Fine Arts, and the National Capital Planning Commission, among others. GPO officials reviewed a draft of this briefing and generally agreed with the findings, including the need to conduct a cost-benefit analysis. However, they maintained that the analysis should be done after legislative authority is granted. They also provided technical corrections, which we incorporated as appropriate. We conducted this performance audit from April 2008 to December 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained meets these standards.

We are sending copies of this report to interested congressional committees and subcommittees with responsibilities for federal facilities and to the Public Printer. The report will also be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or dornt@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Sara Vermillion, Assistant Director; Amy Abramowitz; George Depaoli; Elizabeth Eisenstadt; Carol Henn; Kieran McCarthy; Susan Michal-Smith; and Ruth Walk.

Sincerely yours,

Terrell G. Dorn, PE

Terrell G. Dorn, P.E.
Director, Physical Infrastructure Issues

Enclosure

2/5/2009

GOVERNMENT PRINTING OFFICE

Issues Faced In Obtaining A New Facility

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Why GAO Did This Study

The Government Printing Office (GPO), within the legislative branch, is the federal government's primary resource for gathering, producing, and preserving published federal information. GPO's main facility—located 5 blocks from the U.S. Capitol—encompasses about 1.5 million square feet and consists of four buildings that range in age from 68 to 105 years. According to GPO officials, the facility is inefficiently configured, aging, and much larger than needed. As a result, GPO has examined several options for obtaining a new facility. In 1982, GAO recommended that GPO conduct a cost-benefit analysis of the various options available to address the inefficiencies in its facilities.

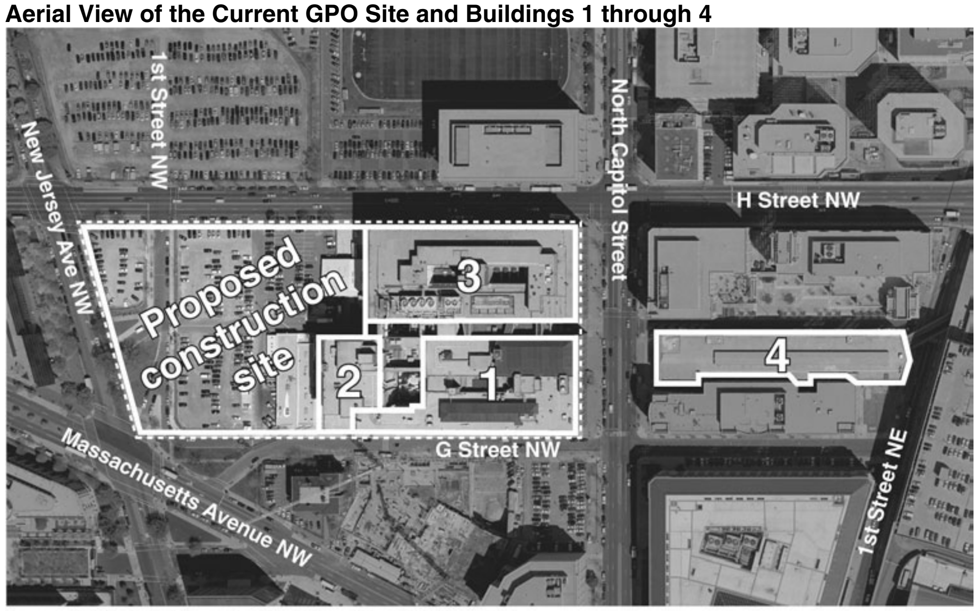
GAO was asked to examine GPO's efforts to obtain a new facility. Accordingly, this briefing provides preliminary information on (1) GPO's analysis of options to obtain a new facility and the extent to which GPO has followed leading practices for capital decision-making and (2) issues, if any, that impede GPO's efforts to obtain a new facility. To conduct this work, GAO analyzed GPO studies and interviewed GPO and District government officials, among others. GPO officials reviewed a draft of this briefing and generally agreed with the findings, including the need to conduct a cost-benefit analysis. However, they maintained that the analysis should be done after legislative authority is granted. They also provided technical corrections, which we incorporated as appropriate.

Summary of Results

GPO commissioned two analyses of options to obtain a new facility and partially followed leading practices for capital decision-making, but it did not conduct a cost-benefit analysis that explored a full range of options. The first analysis (2005) explored three options to obtain a new facility for GPO including leasing a new facility from the private sector. All three options envisioned redeveloping GPO's current site to help pay for the agency's relocation to a new site. The second analysis (2008) involved a different approach—building a new facility on the existing federally owned site, while still redeveloping the current buildings to generate lease income. Leading practices for capital decision-making could guide GPO's next steps. Specifically, a cost-benefit analysis of a full range of options would provide GPO and Congress useful information for decisionmaking.

According to GPO, issues that impede its efforts to obtain a new facility include 1) a lack of legislative authority to outlease (lease as a landlord) and 2) potential difficulty in obtaining federal funds. GPO lacks authority to outlease or sell its real property and retain and use the proceeds from the lease or sale to help pay for its operations. Also, CBO determined that to implement its 2005 proposal, GPO would need to cover the full cost—not just the annual cost—of a new facility in the first year, which could be difficult. If GPO were granted legislative authority to retain and use the proceeds from an outlease or a sale without a link to a proposal to acquire a new facility, CBO and decisionmakers might not have the opportunity to evaluate the full effects of GPO's long-term plans. Alternatively, to ensure that the costs of all options are appropriately compared, Congress could make granting the authority to outlease and retain the proceeds contingent on GPO conducting a cost-benefit analysis that would examine a full range of options for a new facility.

Aerial View of the Current GPO Site and Buildings 1 through 4



Sources: US Geological Survey (aerial photograph); and GAO (graphic).

GPO Commissioned Two Analyses of Options for Obtaining a New Facility

GPO commissioned two analyses, completed in 2005 and 2008, of some options to develop a new facility for GPO. The 2005 analysis explored three options to lease or sell GPO's current property to acquire a new facility through a private-sector developer. GPO could (1) lease a new facility and land from the private sector, (2) exchange the property on its current headquarters site for a new facility and possibly collect rent if the value of the current site exceeded that of the new facility, or (3) lease a new facility on federal property other than GPO's current site from a developer who, in exchange for payment or services, would gain the rights to develop this federal property through what is called an enhanced-use lease. All three options envisioned redeveloping GPO's current site to generate lease income to help pay for the relocation. This 2005 analysis found that the option of moving to a new leased building, combined with the private sector's redevelopment of the existing GPO site, could save U.S. taxpayers millions of dollars annually. However, we believe that this analysis overestimates the savings, because it uses industry standards to estimate a new facility's cost per square foot and these standards do not reflect GPO's current high costs for labor and electricity.

When reviewing proposed legislation based on this 2005 analysis, under which GPO would lease a new facility in the Washington, D.C., area, the Congressional Budget Office (CBO) determined that the full cost of the lease should be scored, or recorded in the budget, as new budget authority at the time of the lease, and that the cost of the lease would exceed the cost of purchasing a comparable facility. The budget-scoring rules are intended to ensure that capital leases, such as the one GPO proposed in 2005, are put on the same budgetary footing as direct purchases of assets. The scoring rules help decision makers face the full costs of their decisions up front. GPO officials believe that CBO's scoring determination discouraged any further legislative action. Going forward, Congress has an opportunity to decide whether the authority for GPO to outlease real property as a landlord and retain or use the proceeds from development should be linked to a proposal to acquire a new facility.

The 2008 analysis involved a different approach—leasing a new facility built on GPO's current site, which the federal government owns. Under this approach, a private developer would redevelop the existing 1.5 million-square-foot facility and construct a new, mixed-use building of approximately 1.5 million square feet on the site, one-third of which would include GPO's new facility, which GPO would lease back from the developer. This analysis assumes GPO would retain lease payments from the developer for its use of GPO's land and existing buildings and use those proceeds to help pay for GPO's operations. According to GPO's 2008 analysis, the approach could save taxpayers millions annually compared with the costs of operating the current facility. However, we believe that the savings estimates of the 2008 analysis do not reflect, for example, GPO's current high costs for labor and electricity.

Why GPO Says It Needs a New Headquarters Facility

- The layout of the current buildings does not efficiently support GPO's current operations. GPO estimates that the buildings contain 3 times more space than it needs. (Current facility: 1.5 million square feet; New facility requirements: 500,000 square feet.)
- The buildings' multistory construction and additions over the years impede efficiency in handling materials. GPO functions are inefficiently located in four buildings and on multiple floors, increasing operating costs.
- The buildings are expensive to operate because of their size, age, and condition. They require extensive repairs that compete with more forward-looking initiatives. According to GPO officials, the replacement of GPO's obsolete elevator system is but one of many capital improvements GPO has deferred—risking critical failure—because of budget constraints.

In addition, GPO officials note that the facilities are sited on some of the most expensive land in the Washington metropolitan region, whose sale or lease could be financially advantageous to the federal government.

GPO Partially Followed Leading Practices in Capital Decision-making

In the two analyses of options for obtaining a new facility that it commissioned, GPO partially followed leading practices in capital decision-making.[1] These practices could provide useful information to guide GPO's next steps.

GPO's Progress in Implementing Leading Practices for Choosing a New Facility

Identify and Evaluate a Wide Range of Options	◐
Conduct Appropriate Analyses to Support Decision-making	◐
Consider Innovative Funding Approaches	◐
Adhere to Sustainable Design Principles	◐

○ Not implemented, ◐ Partially implemented, ● Implemented

(1) **Identify and Evaluate a Wide Range of Options** —GPO's 2005 analysis considered relocating the main GPO facility to another site. In addition, its 2008 analysis considers the option of locating a new facility on property GPO already owns, eliminating the cost of acquiring new land, and recognizes the advantage of having the land immediately available, thus eliminating the need to identify an alternative location. However, GPO does not explore in either analysis how these options compare with a range of other options, such as reconfiguring the current facility to make operations more efficient, to help decision makers determine whether GPO can meet its desire for a new facility in other, perhaps more cost-effective ways. We define reconfiguration as any revamping of the current facility through redesign and/or expansion of the current facility by building an annex behind it.

(2) **Conduct Appropriate Analyses to Support Decision-making** — Although GPO did identify some benefits of building a new facility on its current site, GPO's 2005 and 2008 analyses of its options for a new GPO facility did not include several key analyses, including a cost-benefit analysis. In addition to the operations and maintenance savings that the 2005 and 2008 analyses indicated GPO would gain from moving to a new facility, GPO identified other benefits of keeping the facility on its current site.

- GPO headquarters would stay close to Capitol Hill and GPO's congressional customers.
- GPO employees would continue to have ready access to public transportation at nearby Union Station. Almost half of GPO employees depend on public transportation.

However, GPO did not conduct several key analyses to determine where an investment of capital could achieve the greatest benefit.

[1] We used both GAO's *Executive Guide: Leading Practices in Capital Decision-making* (GAO/AIMD-99-32) and the Office of Management and Budget's *Capital Programming Guide* as sources of leading practices for choosing a capital asset to evaluate GPO's efforts to identify the best option for a new facility. These leading practices complement each other.

Leading Practices in Capital Decision-making

These practices promote efficient resource allocation through well-informed decision-making by the federal government.

(1) **Identify and Evaluate a Wide Range of Options—**This practice recommends analyzing a wide range of options before choosing an option for a capital asset. It also asks decision makers to consider whether needs can be met in other ways or without incurring significant risk.

(2) **Conduct Appropriate Analyses to Support Decision-making—**Projects that are expensive or are crucial to an organization's strategy require a full assessment of where the investment of capital can achieve the greatest benefit. Analyses should examine which capital asset options are most affordable and cost-beneficial. For example, a cost-benefit analysis should compare the life-cycle costs of various alternatives and be adjusted to consider risk.

(3) **Consider Innovative Funding Approaches—**In a constrained budget environment, this practice enhances an agency's flexibility to finance the full costs of capital projects without compromising Congress' ability to make decisions on full costs.

(4) **Adhere to Sustainable Design Principles—** Sustainable design seeks to positively affect public health and the environment, reduce operating costs, and help create a sustainable community. Leading practices for sustainable design ask if sustainability has been considered in all aspects of an asset's life-cycle.

- GPO did not conduct a full cost-benefit analysis of the identified options. A cost-benefit analysis is a systematic, quantitative way of assessing the desirability of government projects when it is important to take a long view of future effects and a broad view of possible side effects.
- Although the 2005 analysis identified five risks, including rising construction costs, associated with the options considered, it did not include a full risk analysis, which would quantify these risks and show how they might affect the relative costs and benefits of various alternatives. For example, a full risk analysis might identify uncertainties, such as potential savings from labor cost reductions, and estimate how they might affect overall cost estimates.
- Both the 2005 and the 2008 analysis also did not include a full life-cycle analysis of a range of competing alternatives to show which alternative would be the most cost-effective over the life of the asset.
- Furthermore, both analyses did not include a sensitivity analysis to show the effects of uncertainties on GPO's estimates. A sensitivity analysis can identify the response of a program's costs and benefits to changes in one or more uncertain elements of the analysis. For example, GPO could show how increases or decreases in assumed rental rates for office and residential space or assumed inflation rates would affect overall revenue estimates.
- The operations cost estimates in both analyses do not fully consider the impact of current labor and electricity costs, relying instead on industry benchmarks to estimate operations expenses for the new facility. As a result, we believe that these analyses overestimate the savings to be gained from moving to a new facility. For example, in its 2005 analysis, GPO assumed a large reduction in its labor costs for operations, maintenance, and repairs based primarily on the two-thirds reduction in facility size. However, GPO proposed no corresponding reduction in staff.

(3) **Consider Innovative Funding Approaches**—The 2005 and 2008 analyses both explore alternatives to full up-front funding that would generate funds from development to help pay for a new facility over a time frame to be negotiated between GPO and the developer. GPO is considering a funding approach that is similar to that undertaken by the Armed Forces Retirement Home (AFRH),[2] which is developing part of its property to generate income to help pay for its rising expenses and stagnant revenue stream after it received the authority to do so from Congress in December 2001. Using federal land for private development to fund an agency's needs is a relatively new approach.

4) **Adherence to Sustainable Design Principles**—While GPO considered elements of sustainable design in its 2005 analyses, such as creating a green roof on the main plant and using sustainable design to enhance energy efficiency, GPO has not comprehensively considered how sustainable design principles could be incorporated in a new facility throughout its entire life cycle or whether various options are more sustainable than others. For example, GPO has not fully evaluated whether reconfiguring its current building is more or less sustainable than constructing a new building.

[2] AFRH is an independent establishment in the executive branch of the federal government.

Other Issues Facing GPO

GPO will face additional issues if it proceeds with its current plan to develop a new headquarters facility. For example, GPO will have to address its lack of expertise with lease management as a landlord. To its credit, GPO has already solicited the real property management expertise of the General Services Administration (GSA). Just as it is guiding AFRH in the development of its property, GSA could guide GPO in complying with historic preservation, environmental, and federal and local planning requirements when GPO moves to implement whatever alternative it identifies as best for a new facility.

By involving stakeholders such as the Architect of the Capitol (AOC), the District, and GSA, early, GPO could avoid issues down the road. In addition, by continuing to involve these stakeholders throughout the process, GPO could facilitate completion of a memorandum of understanding on how the current site is to be developed, if development of the current site is deemed the best alternative. GPO's 2005 analysis includes a communication plan that outlines a comprehensive strategy for engaging all stakeholders in whatever alternative is selected.

GPO will also have to address the space needs of its current federal tenants. For example, AOC currently leases storage and office space in GPO's current building for the Capitol Police and the Superintendent of the Senate.

Issues That Impede GPO's Efforts Include a Lack of Legislative Authority to Outlease Property and Potential Difficulty in Obtaining Federal Funds

According to GPO, there are several issues that impede its efforts to obtain a new facility. First, to implement the options identified in its 2005 or 2008 analysis, GPO would need legislative authority to outlease its property as a landlord and retain and use the proceeds from such a lease to help defray operational costs.[3] It would also like the authority to sell its property and use the proceeds, although it does not need this authority to implement the options identified in the 2008 analysis. GPO would like to receive these legislative authorities before it proceeds with additional expenditures for analyses to further justify the best option for a new facility—thereby eliminating uncertainty about whether the authority will be available if the selected option requires such authority. If GPO is granted legislative authority to retain and use the proceeds from an outlease or sale without a link to a proposal to acquire a new facility, CBO and decisionmakers may not have an opportunity to evaluate the full effects of GPO's long-term plans. As an alternative to granting this legislative authority to GPO without tying it to a specific proposal, Congress could grant GPO outleasing authority only if it is needed to implement the option that a cost-benefit analysis of a full range of options identifies as best.

Second, GPO faces potential difficulty in obtaining funds to pay for a new facility. Agencies sometimes have difficulty obtaining funds for projects that require a large increase in budget authority. GPO's 2005 draft legislation, which would have authorized GPO to lease a new facility in the Washington, D.C., area and to enter into agreements with private-sector developers to share anticipated leasing proceeds from the new development on GPO's current site, was determined by CBO to include a capital lease and thus not proposed to Congress. Budget scoring rules require that the full cost of entering into a capital lease for a new facility be applied in that fiscal year's budget when the budget authority first becomes available for expenditure. Making the costs of decisions readily apparent in the budget before funds are appropriated provides the transparency needed for effective congressional and public oversight.

Third, uncertainties about the local real estate market—including the market demand for office or residential space on the current GPO site, the developer's costs for loans to fund capital expenditures, and construction costs—raise questions about whether GPO could obtain sufficient revenues from redeveloping its property to make an option that involves building an additional facility on the current site the most cost-effective option for the federal government.

[3] GPO currently has the authority to lease space as a tenant. See 44 U.S.C. § 309.

Agency Comments and Our Evaluation

GPO reviewed a draft of this briefing and generally agreed with the findings, including the need to conduct a complete cost-benefit analysis. However, GPO maintained that a detailed cost-benefit analysis should only be carried out after it has obtained the legislative authorities necessary to implement some of the options currently under consideration, and after the Joint Committee on Printing (JCP) has reviewed and approved the analysis. GPO offered two primary reasons for this position.

> (1) Because a cost-benefit analysis involves a significant investment of time and money, this investment is potentially wasted if GPO does not obtain the legislation it desires to proceed with the alternative determined to be best.
>
> (2) GPO would not have the detailed data to conduct a cost-benefit analysis without knowing the terms and conditions of a transaction between GPO and a developer.

We agree that if GPO conducts a cost-benefit analysis before receiving the legislative authorities to implement some of the proposed options, it risks losing a significant investment of time and money should it not receive these authorities. However given the costs, risks, and potentially different ways to meet GPO's desire for a new facility, we believe GPO should conduct this analysis to provide Congress with sufficient information to make an informed decision about how to proceed. We do not believe that detailed knowledge of a proposed development transaction is required to conduct a complete cost-benefit analysis. The level of detail included in GPO's 2005 analysis is sufficient in our view. However, we continue to believe that GPO must conduct a cost-benefit analysis that examines a full range of alternatives and uses actual costs instead of industry standards to estimate any savings that may exist.

GPO also noted that requiring it to obtain JCP's approval before entering into any specific transaction should address our concern that the full effect of GPO's long-term plans might not be evaluated. We agree that review and approval from JCP would be beneficial, particularly if GPO had received prior legislative authority, as there would be no other review process. However, we maintain that even if this requirement for JCP's approval is in place, without a complete cost-benefit analysis that looks at a range of alternatives, JCP—and Congress as a whole—may not be aware of the costs, benefits, and risks of a range of alternatives and thus may not have the information to make a fully informed decision.

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