

Alternative
Reconstruction
Their Cost



National Security and
International Affairs Division

B-241619

December 28, 1990

The Honorable Brock Adams
United States Senate

Dear Senator Adams:

As you requested, we reviewed the basis for the State Department's proposal to demolish the unfinished U.S. embassy office building in Moscow and build a new one. Specifically, we examined (1) the basis for the current cost estimate of \$270 million for demolition and reconstruction and (2) the alternatives considered by the State Department for a new embassy in Moscow and their costs. This fact sheet is the unclassified version of a classified fact sheet on the same subject.

Background

Based on several agreements with the Soviet Union, the United States began constructing a new eight-story embassy building in 1979. In August 1985, the United States locked the Soviet construction workers out of the site because of security concerns. Subsequent inspection of the building indicated that it was permeated with Soviet eavesdropping devices. The building is approximately 65 percent complete as it stands today.

Since 1987, the State Department has considered several options for completing the embassy project. In late 1989, the administration proposed to demolish the current structure, with the exception of the foundation and basement, and build a new eight-story building on the current site. The State Department requested \$270 million in its fiscal year 1991 budget submission for this purpose.¹

DTIC QUALITY INSPECTED 5

Results in Brief

Accession For	
NTIS	✓
DTIC	
Unclassified	
Justification	
By	
Distribution /	
Availability	
Dist	Avail. to Spec.
A1	

The State Department's \$270 million cost estimate is based on the estimated cost of reconstruction from a security engineering study prepared by the BDM/M.K. Ferguson companies and on the State Department's estimates of special security requirements and administrative costs. Security-related items account for the majority of the \$270 million. The State Department considers Moscow to be one of the most technologically hostile intelligence-gathering locations, requiring the highest level of security.

¹The Congress did not fund the project for fiscal year 1991. The State Department plans to request funding again for fiscal year 1992.

The current \$270 million cost estimate to demolish and rebuild the office building may be understated because (1) an actual building design has not been completed, (2) the milestones for completing design work and reaching a construction agreement with the Soviet government have been exceeded, and (3) the projected inflation rates used for the \$270 million estimate are lower than current projected rates. We estimate that the revised inflation forecasts and schedule delays have increased reconstruction costs by about \$13 million.²

Three other options, based on engineering concepts and ranging in estimated costs from \$222 million to \$336 million, were also considered by the State Department. These included (1) tearing the building down to the fourth floor and reconstructing on the present site, (2) constructing a new office building on a different site and converting the current structure into apartments, and (3) constructing a secure eight-story annex on a different site and completing the current structure for non-secure purposes. These options were not favored by the State Department because they did not fully meet security needs, were too costly, or would take too long to complete. The cost estimates for these options may also have been understated for the same reasons as stated for the selected option. Although the State Department would prefer to proceed with its proposal to demolish the unfinished building with the exception of the foundation and the basement and construct on the same location, State has been directed by Congress to conduct further design work on two of the four options.

Regardless of which option is eventually funded, the construction of a new embassy office building is linked to U.S. efforts to negotiate new agreements with the Soviet Union for facility and land use in Moscow. Current negotiations involve construction agreements for the new office building and other land and buildings in adjacent areas. State officials noted that they believe an agreement covering construction of the new building on its current site could be negotiated separately from the other property issues. However, another agreement covering a number of properties and issues would be necessary before work on the two off-site options could proceed. Further delays in concluding either agreement might affect the cost and schedule in completing a new building. In addition, State has not prepared cost estimates on the additional property and facility needs for the remaining Moscow complex.

²In current dollars.

Scope and Methodology

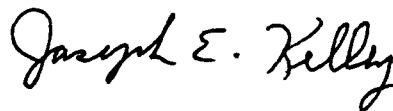
We interviewed officials and reviewed records at the Department of State and BDM Corporation. We also reviewed (1) cost data and assessments of construction alternatives prepared by BDM/M.K. Ferguson companies and other independent consultants and (2) studies on the structural integrity of the current structure by the National Bureau of Standards and engineering firms. We did not visit the unfinished U.S. embassy building or the new embassy compound in Moscow. Also, we did not independently evaluate security requirements for the embassy site. Our review was conducted from April through September 1990 in accordance with generally accepted government auditing standards.

As requested, we did not obtain written agency comments. However, we discussed the information in this fact sheet with responsible State Department officials and have included their comments as appropriate.

Unless you publicly announce the contents of this fact sheet earlier, we plan no further distribution until 30 days from the date of this fact sheet. At that time, we will send copies to the Secretary of State, appropriate congressional committees and members of the Congress, and other interested parties. Copies will also be made available to others on request.

The information for this fact sheet was developed by Jess T. Ford, Assistant Director; Elena L. Boshier, Evaluator-in-Charge; and Beth A. Hoffman, Evaluator, Security and International Relations Issues. Please call me on (202) 275-4128 if you or your staff have any questions.

Sincerely yours,



Joseph E. Kelley
Director, Security and International
Relations Issues