

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PRIVATE DEVELOPMENT OF THE NAVY
BROADWAY COMPLEX, SAN DIEGO, CALIFORNIA**

Report No. 93-166

September 9, 1993

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DEPARTMENT OF DEFENSE
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September 9, 1993

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)

SUBJECT: Audit Report on Private Development of the Navy Broadway Complex, San Diego, California (Report No. 93-166)

We are providing this final report for your information and use. Comments on a draft of this report were considered in preparing the final report. The audit was the result of information filed with the DoD Hotline concerning Navy plans to exchange a long-term lease of Government property for office space.

DoD Directive 7650.3 requires that audit recommendations be resolved promptly. Based on management comments, we revised one recommendation, we deleted one recommendation, and we added one recommendation to the Under Secretary of Defense for Acquisition. We request that the Under Secretary of Defense for Acquisition and the Assistant Secretary of the Navy (Installations and Environment) provide comments on the final report recommendations by November 8, 1993.

We appreciate the courtesies extended to the audit staff. If you have any questions on the report, please contact Ms. Patricia A. Brannin, Program Director, at (703) 692-3206 (DSN 222-3206) or Ms. Macie J. Rubin, Project Manager, at (703) 692-3222 (DSN 222-3222). Appendix F lists the distribution of the report.

A handwritten signature in cursive script that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-166

Project No. 3CD-8007

September 9, 1993

PRIVATE DEVELOPMENT OF THE NAVY BROADWAY
COMPLEX, SAN DIEGO, CALIFORNIA

EXECUTIVE SUMMARY

Introduction. The Navy plans to lease 13.5 acres of downtown San Diego, California, waterfront property, valued at \$50 million, to a private developer for 65 years in exchange for a minimum of 450,000 square feet of office space on the same property. The lessee will develop the property with hotel, retail, and office space. The audit was the result of information filed with the DoD Hotline concerning the Navy plan.

Objective. The audit objective was to determine if the lease arrangement involving the private development of the Navy Broadway Complex was justified and economically sound.

Audit Results. The Navy plan to allow private development of the Broadway Complex in exchange for office space is not adequately justified and will not provide space for collocating activities. Implementation of the plan results in the potential loss of the property for 65 years in exchange for administrative office space for which the Navy has not adequately documented a need. Also, the Navy did not adequately consider the Broadway Complex for projects other than Navy administrative office space.

Internal Controls. We did not identify material internal control weaknesses. See Part I for a discussion of internal controls assessed.

Potential Benefits of Audit. DoD could put 10 acres of land, valued at about \$37.5 million, to better use by determining the most cost-beneficial use of the property, such as supporting higher priority projects. Appendix D summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We recommended that the Navy delay plans to obtain office space through lease of the Navy Broadway Complex and determine the most cost-beneficial use of the property to DoD. We also recommended that the Under Secretary of Defense for Acquisition not approve the proposed 65-year lease of the Broadway Complex until the Navy has properly documented a reevaluation of the use of the property.

Management Comments. The Principal Deputy Assistant Secretary of Defense (Production and Logistics) disagreed with the recommendation concerning the base closure and realignment process but agreed that the Navy should adequately justify the proposed project. The Acting Assistant Secretary of the Navy (Installations and Environment) disagreed with the finding and recommendations. A discussion of the management comments is in Part II and the complete text of management comments is in Part IV of this report.

Audit Response. Based on management comments, we revised the report recommendations. We also adjusted, as appropriate, monetary benefits associated with the deleted recommendations. We request that the Under Secretary of Defense for Acquisition and the Assistant Secretary of the Navy (Installations and Environment) provide comments on the final report by November 8, 1993.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

The audit was made in response to a DoD Hotline allegation concerning the Navy plan to lease the Broadway Complex to a private developer in exchange for office space.

Broadway Complex Facilities. The Navy Broadway Complex is 13.5 acres of Government-owned property on the San Diego, California, downtown waterfront. Sixteen buildings on the Broadway Complex provide about 1 million square feet of substandard¹ warehouse and office facilities. The complex also has a deep draft pier. In 1990, a Naval Facilities Engineering Command consulting contractor estimated the Broadway Complex property value at \$50 million.

Broadway Complex Tenants. In 1979, the Naval Supply Center, San Diego, the primary occupant of the Broadway Complex, began long-range plans to move warehouse functions from the Broadway Complex closer to the Navy fleet at the Naval Station, San Diego. The warehouse functions will be completely moved from the Broadway Complex to Naval Station, San Diego, by the end of FY 1994.

As of February 1993, the primary occupants of the Broadway Complex were about 1,800 military and civilian personnel from administrative functions of various Naval organizations in the San Diego area and Headquarters, Naval Base, San Diego. The 1,800 personnel are primarily housed in two buildings that occupy about one-fourth (3.5 acres) of the 13.5 acres (Appendix A).

Broadway Complex Project Office. In FY 1987, as a result of the impending Naval Supply Center, San Diego, move, the Navy established the Broadway Complex Project Office to formulate and oversee the plan to develop the Broadway Complex. The Project Office reports to the Commander, Southwest Division, Naval Facilities Engineering Command.

The Project Office plan is to exchange a 65-year lease of the Broadway Complex for administrative office space. The FY 1987 National Defense Authorization Act, section 2732, "Lease and Development of Certain Real Property, San Diego, California," provides authority for the Secretary of the Navy to enter a long-term lease of the Broadway Complex.

¹Substandard space is adequate for its function, but requires modifications or repairs that normally require approval and funding beyond the authority of the activity commanding officer.

Objective

The audit objective was to determine if the proposed lease arrangement of the Navy Broadway Complex was justified and economically sound.

Scope

We reviewed documents on the Naval Supply Center, San Diego, warehouse relocation and on office space requirements covering the period 1981 through March 1993 related to the Navy decision to lease the Broadway Complex for private development in exchange for office space for Navy personnel. We also examined Navy base closure and realignment data related to the Broadway Complex. The data reviewed included the 1990 Navy economic analysis to determine the most cost-effective way to obtain administrative office space for Navy personnel. We did not rely on computer-generated data to perform the audit.

This economy and efficiency audit was made during January through May 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls as were considered necessary. Appendix E lists the activities visited or contacted during the audit.

Internal Controls

We reviewed internal controls related to the Navy plan to lease Government-owned property in exchange for office space, including the requirement for an economic analysis. The internal controls reviewed were deemed to be effective in that no material weaknesses were disclosed.

Prior Audits and Other Reviews

No prior audits or other reviews were conducted on the private development of the Navy Broadway Complex.

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Part II - Finding and Recommendations

Navy Broadway Complex Development

The Navy plans to enter into a 65-year agreement with a private developer to exchange 13.5 acres of downtown San Diego waterfront property for new office space for current Broadway Complex tenants and potentially for 13 other Navy activities in the San Diego area. The Navy did not adequately justify the need for the office space to be received in exchange for the lease. Also, the office space will not adequately cover the collocation of the 13 other activities if the activities need to move. The Navy plan to develop the Broadway Complex and the need for the new office space were based on the unsupported assumption that the Navy needed to remain on the Broadway Complex. In addition, the Navy economic analysis did not consider alternative uses of the Broadway Complex property. As a result, if the Navy leases the Broadway Complex to a private developer, DoD will lose use of about 10 acres of the Broadway Complex, worth an estimated \$37.5 million, that could be used to support higher priority DoD projects or uses.

Background

A 1981 Navy study identified the Broadway Complex as a suitable site for collocating various administrative and technical activities in the San Diego area. In 1985, the Chief of Naval Operations approved the concept of a public/private venture to develop the Broadway Complex, and a project office was set up to pursue the development plan.

The Broadway Complex Project Office development goals were to:

- o receive modern office space in return for a long-term lease of the property to a private developer,
- o retain ownership of and remain at the Broadway Complex, and
- o develop the property in a manner acceptable to the San Diego community.

Private Development Plan

In order to meet the development goals, the Navy planned to enter a 65-year lease agreement with a developer for a public/private venture to develop the 13.5-acre Broadway Complex. A developer would build about 3 million square

feet of hotel, retail, and office space on the Government-owned land. In exchange for the 65-year lease, the developer would provide at least 450,000 of the 3 million square feet of developed space to house existing Broadway Complex Navy tenants and to potentially collocate other Navy administrative activities in the San Diego area. The developer could provide this space either by rehabilitating existing Navy property on the Broadway Complex or by building new office space. Appendix A shows the present physical configuration of the Broadway Complex.

Office Space Requirements

Project Office Planned Space Requirements. At the time of our audit, the Project Office had determined that about 811,000 square feet of new office space was needed to accommodate existing tenants and collocating activities.

The following table shows the Project Office planned space requirements.

Navy Broadway Complex Planned Space Requirements

<u>Activity</u>	<u>Office Space Required</u> (square feet)
Existing Tenants	418,987
Collocating Navy Activities	<u>391,894*</u>
	<u>810,881</u>

*Office space requirements for 13 activities (Appendix B).

Despite the stated requirement for 811,000 square feet of office space, the Project Office specified in its draft request for proposal that the developer must provide a minimum of only 450,000 square feet of office space. This minimum amount of office space (450,000 square feet) would accommodate the tenants remaining on the Broadway Complex after the Naval Supply Center, San Diego, move is complete, leaving only 31,000 square feet to satisfy collocation requirements. Further, the Navy had no plan to provide office space for the collocating activities if the developers did not offer more than 450,000 square feet. The collocating activities would remain in their existing office space.

Collocating Activities Space Requirements. We visited 4 of the 13 prospective collocating Navy activities to determine current and future office space requirements. The four activities represent approximately 213,437 square feet (54 percent) of the total 391,894 square feet. None of the four activities visited had requested consideration for relocation, and one activity was unaware of the potential relocation. Two of the prospective Broadway Complex tenants occupied recently renovated office space. One activity, which occupied

structures classified as substandard, did not welcome the move and preferred to remain in the existing location. Both activities with recently renovated space preferred to remain in the existing space. The fourth activity, although occupying inadequate² facilities, was indifferent to moving into the new Broadway location. None of the activities was able to identify any functional advantages of moving to the Broadway Complex.

Office Space Construction. The Navy anticipates the process of public/private venture solicitation will require about 15 months. The developer may be given as much as 7 years to deliver the Navy office space. If the lease agreement were awarded in 1994, the Navy would possibly not receive office space until 2001. In our opinion, existing structures on the Broadway Complex may need to be renovated before the new office space becomes available.

Navy Ownership of the Broadway Complex

The Navy plans for developing the Broadway Complex were based on the assumption that the Navy needed to retain ownership of, and presence on, the property. The Project Office stated the following reasons for retaining ownership:

- o The Navy activities would not be able to collocate otherwise.
- o The Navy is a major community employer and should maintain a presence in downtown San Diego.
- o The Broadway Complex location allows Navy to take advantage of the downtown transportation system.
- o The Broadway Complex is valuable waterfront property that cannot be replaced.

We believe the Navy willingness to allow such extensive private development of public land for such an extended period (65 years) indicates that a portion of the land is surplus to the Navy present operational needs.

Public/Private Ventures

Public/private ventures have at times been beneficial for DoD, but in certain cases the ventures have also proven to be risky. For example, public/private

²Inadequate space cannot be made adequate for its present use through economically justifiable means.

ventures such as leasing housing from private developers at the Naval Station, Staten Island, New York, and Fort Ord, California will not provide anticipated benefits. This will occur because the installations will close as a result of the base closure and realignment process. However, the Navy and Army will still be responsible for the remaining portion of the 20 year leases.

The public/private venture became a viable option for development of the Broadway Complex when the FY 1987 National Defense Authorization Act gave the Navy authority to negotiate a long-term lease of the Broadway Complex property. The public/private venture allowed the Navy to acquire administrative office space without the usual process for military construction authorization.

The Navy stated that the San Diego region has been designated as a fleet concentration area, which could bring additional personnel into the San Diego area. We believe, because of the changed and changing environment within DoD, commitment to the 65-year lease of the Broadway Complex is risky without reevaluating the most cost-beneficial use of the property to DoD.

Economic Analysis

As required by DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management," the Project Office prepared an economic analysis to determine if the proposed Broadway Complex development was the most economical means of acquiring administrative office space. In our opinion, the analysis, revised in 1990, did not provide a sound basis for management decisions concerning the best use of the Broadway Complex.

The economic analysis was based on the assumption that the Navy needed to retain ownership of and remain on the Broadway Complex and that the property would be used by the Government to collocate other San Diego-area Navy administrative activities. Therefore, the analysis considered only four options:

- o Retain the Broadway Complex and renovate existing office space to accommodate existing tenants (that is, maintain the status quo).
- o Lease commercial space for existing and prospective Broadway Complex tenants.
- o Build new office space on the Broadway Complex using military construction funds.
- o Enter a 65-year lease for public/private venture.

Navy Broadway Complex Development

In addition, the economic analysis was based on unsupported assumptions and costs. For example, the Project Office allocated the full value of the land (\$50 million) to the status quo and military construction options, even though all the land would not be used. Also, the Project Office studied only those options that would allow the Navy to remain on the Broadway Complex. As a result, the economic analysis was oriented toward justifying the lease option that was granted by the National Defense Authorization Act. Thus, the economic analysis did not consider other options for use of the property, such as:

- o other DoD operational or safety related projects, which historically have a higher priority than administrative office space;

- o exchange of all or a portion of the Broadway Complex for administrative office space in other than downtown San Diego; and

- o need for other DoD activities for collocating or consolidating administrative or other space requirements in the San Diego area.

Before entering into a 65-year lease, we believe that the Navy should consider the Broadway Complex as an asset that could be used to satisfy potentially higher priority projects or to support other DoD uses.

Potential Benefits

A Navy consultant appraised the 13.5 acre Broadway Complex at \$50 million. Existing office space on the Broadway Complex occupies approximately 3.5 acres. The remaining 10 acres is proportionately valued at \$37.5 million. The DoD could put this property to its best use if all potential uses were explored.

Conclusion

Since 1984, when the Navy decided to collocate administrative functions to the Broadway Complex property, and since the subsequent 1987 Congressional approval to lease the property, DoD has changed significantly through downsizing, base closures and realignments, and reduced budgets. Therefore, before committing to such a long-term strategy for the Broadway Complex, the Navy should reevaluate the best, most cost-beneficial use of the property. The Navy plan to obtain office space in exchange for a 65-year lease of downtown San Diego waterfront property should, at a minimum, be reevaluated for the following reasons:

- o The Navy did not adequately support the need to collocate Navy activities from other Government office space in the San Diego area. We

believe that the willingness of the Project Office to accept as little as 450,000 square feet of office space in exchange for the 65-year lease indicates that no real need exists to collocate the activities.

- o The Navy did not adequately justify the need to retain ownership of, and remain on, the Broadway Complex property.

- o Office space may not be available for Navy use for about 7 years, potentially requiring the Navy to renovate existing Broadway Complex office space.

- o The economic analysis did not include all viable alternative uses for the property, such as exchanging or leasing the vacant portions of the Broadway Complex to support other DoD uses, completing projects other than administrative office space, and supporting other DoD activities for office or other space requirements.

In addition, the Navy did not consider the opportunity afforded by the base closure and realignment process to identify potentially higher priority users of the property.

Recommendations, Management Comments, and Audit Response

Revised, Deleted, and Added Recommendations. Based on management comments, draft Recommendation 1. has been revised to retain the Navy Broadway Project Office and recommend the project office consider all alternatives for the property. We deleted draft Recommendation 2. to consider the property for part of the base closure and realignment process. Finally, we added a recommendation to the Under Secretary of Defense for Acquisition to withhold approval of the public/private venture until an analysis of all alternatives is completed.

1. We recommend that the Assistant Secretary of the Navy (Installations and Environment) delay plans for developing the Navy Broadway Complex and determine the most cost-beneficial use of the Broadway Complex. The cost-benefit analysis should include other uses of the property to support potentially higher priority projects or other DoD activity requirements. Based on the results of the analysis, continue or revise the lease plans, request military construction funds or seek legislative authority needed for exchange of the property.

Management Comments. The Principal Deputy Assistant Secretary of Defense (Production and Logistics) agreed that the Navy should provide a sound justification for the project before going forward. The Acting Assistant Secretary of the Navy (Installations and Environment) stated that canceling plans to develop the Broadway Complex by public/private venture would make

it unlikely that the Navy would be able to obtain modern administrative office space. The Navy stated that military construction funds for administrative facilities are in short supply, which was one reason why Congress authorized the project. The Navy also stated that the report did not consider the cost of implementing the recommendation.

Audit Response. We concede that military construction funds may be less available for lower priority administrative facilities than for higher priority operational or safety projects. The potential lack of available funds does not justify abandoning efforts to determine the most cost-beneficial use of the property. Such information may, however, be considered as part of any economic or cost-benefit analysis. Although Congress authorized the project about 6 years ago, we believe that Congress should be notified if leasing the property is not now the most cost-beneficial use of the property. Such notification is especially important given the changes that have occurred within DoD since the 1987 Congressional authorization. The Navy should seek approval from Congress for alternative uses if appropriate.

The Senate report on the National Defense Authorization Act for FY 1994 proposes a change to Title 10 that authorizes DoD to purchase existing facilities in lieu of authorized construction if it is in the best interest of the Government. This shows the intent of Congress to be flexible in acquiring facilities. The Navy should not initiate the lease just because it was authorized by Congress. The Navy should determine if the lease, military construction, the exchange or some combination of the three choices is the best choice before initiating the 65-year lease.

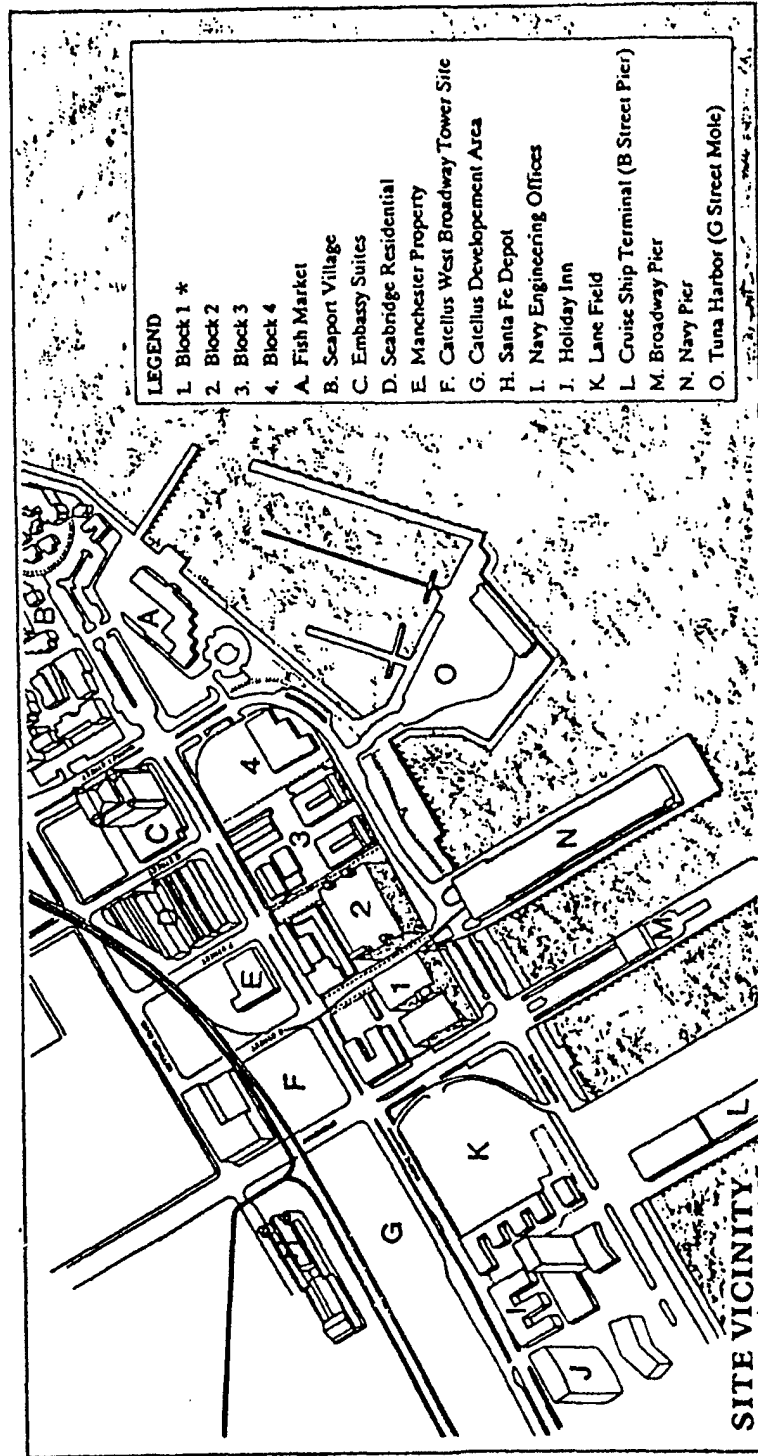
We agree that a cost may be incurred if the proposed plan for developing the Broadway Complex is not pursued. However, we believe that ensuring the best use of the property is worth the additional cost, especially given that the proposed use essentially gives up DoD use of the property for at least 65 years. We request the Navy to provide comments on revised Recommendation 1.

2. We recommend that the Under Secretary of Defense for Acquisition not approve the project until the Navy conducts an economic analysis that fairly and adequately addresses all options.

Management Comments on the Finding. Detailed audit responses to Navy comments on the finding are in Appendix C.

Part III - Additional Information

Appendix A. Map of Present Broadway Complex



*The Broadway Complex is made up of the areas marked 1., 2., 3., 4., and N. The existing tenants are primarily located in the buildings in the area marked 1.

Appendix B. Navy Broadway Complex Tenants

<u>Tenants Remaining on Broadway Complex After Private Development</u>	<u>Office Space Required (square feet)</u>
Commander Naval Base	26,140
Fleet and Industrial Supply Center	130,555
Defense Accounting Office	87,920
Naval Regional Contracting Center	16,550
Naval Computer and Telecommunications Station	46,896
Naval Training Systems Center Representative, Pacific	880
Naval Investigative Service	2,750
Naval Dental Clinic	2,000
Personnel Support Activity	6,480
Navy Publishing and Printing Service	1,200
Navy Resale and Services Support Office	500
Public Works Center	2,300
Naval Education and Training Support Center, Pacific	14,700
Subtotal	<u>338,871</u>
Wall space	33,886
Cubicle systems	22,365
Lounges, United Parcel Service, and circulation	<u>23,865</u>
Total Usable Square Feet	<u>418,987</u>

Appendix B. Navy Broadway Complex Tenants

<u>Activities Potentially Collocating to Broadway Complex After Private Development</u>	<u>Office Space Required (square feet)</u>
Naval Investigative Service Office	6,820
Naval Publishing and Printing Service	6,200
Western Area Headquarters	4,554
Naval Health Care Support Office	6,380
Naval Audit Service	14,487
Naval Facilities Engineering Command, Public Works Support Division	12,000
Naval Computer and Telecommunications Station	1,760
Naval Air Engineering Center Detachment	2,046
Defense Mapping Agency	13,475
Naval Reserve Readiness Command Region Nineteen	15,070
Naval Facilities Engineering Command Southwest Division	91,613
Public Works Center	95,469
Board Inspection and Survey, Pacific	8,030
Naval Personnel Research and Development Center	<u>72,000</u>
Subtotal	349,904
Lounges, cubicle systems	<u>41,990</u>
Total Usable Square Feet	<u><u>391,894</u></u>

Appendix C. Summary of Management Comments on the Finding

This appendix provides responses to comments from the Acting Assistant Secretary of Navy (Installations and Environment) on the finding and other statements in the report. The full text of the Acting Assistant Secretary's comments is in Part IV.

Management Comment. The Navy questioned whether we used generally accepted Government auditing standards in developing the audit conclusions and recommendations. For example, the Navy stated that the examples of projects used to show how risky the Broadway Complex public/private venture could be were fundamentally different, that the use of anecdotal reports to refute Navy requirements was questionable, and that the report gave little credence to professionally prepared planning studies.

Audit Response. We used generally accepted auditing standards to develop our audit conclusions and recommendations. We based the conclusions on reviews of relevant documents provided by project staff, on discussions with personnel involved in or affected by the project, and discussions with personnel involved in the decisionmaking process.

The examples of public/private ventures discussed in the draft report pointed out that such ventures were not without risk to DoD. The examples illustrated the impact of the dynamic changes occurring within DoD and further supported the conclusion that the Navy should reconsider the best DoD use of the property. We revised the report to clarify our position.

The testimonial information, called "anecdotal" by the Navy, was also used in accordance with auditing standards to support our conclusions. By interviewing senior Navy officials from 4 of the 13 prospective tenants, we concluded that the tenants are able to operate in their present locations and that the tenants did not recognize any functional improvements to be achieved through the Navy collocation plan. These interviews were conducted to gather additional audit evidence and were not the sole basis for our audit conclusions.

In addition, we did give credence to the professionally prepared studies. We recognized the Navy's economic analysis. We did, however, question the completeness of the economic analysis and correctly pointed out that assumptions used in the analysis were incomplete, specifically the assumptions that the only use of the property would be for administrative office space and that the Navy must maintain a presence on the property.

Management Comment. The Navy did not agree that the potential exists for maintenance, repair, and utility costs to escalate under its plans for developing the Broadway Complex. The Navy also stated that the report suggested that these were new costs when actually the costs associated with existing Government space were greater because of less energy efficiency.

Audit Response. We agree with the Navy's comments and have revised that portion of the report.

Management Comment. The Navy stated that other alternatives were studied, including exchange of the Broadway Complex for an office building located in downtown San Diego. Further, an exchange of all or part of the property for office space on Government property was not a viable option because the Navy is not aware of such property and no legislative authority for the exchange exists.

Audit Response. The main point of our finding was that the Navy did not consider uses of the property for other than office space. The Navy comments are based on the assumption that the office space must be located in downtown San Diego. The Navy did not consider locating the administrative office space in locations other than downtown San Diego. If an evaluation of alternative uses of the property shows that such an exchange is best, the Navy would have to request legislative authority.

Management Comment. The Navy stated that, even if the 10 acres of the Navy Broadway Complex were available to be sold, it cannot be assumed that the Government would receive the fair market value. The property could be conveyed for one or more public benefit uses.

Audit Response. We believe that using fair market value as a measure of the potential benefit is reasonable. Although sale is a possibility, we envision that DoD would have higher priority uses for the property before turning over the property as surplus as described in the Navy comments.

Management Comment. The Navy questioned potential cost savings of not moving the potential tenants to the Broadway Complex.

Audit Response. We agree and have deleted this from the report.

Management Comment. The Navy stated that a requirement for up to 1 million square feet of modern administrative office space exists and the 450,000 square feet of administrative office space related to the Broadway Project was only a minimum. Additionally, the 7-year delivery specified in the proposal is the maximum period of time within which the Navy is to obtain its office space. Since this will be a competitive contract, the Navy fully expects offers for as much as 660,000 square feet delivered in less than 7 years.

Audit Response. The Navy may expect more than 450,000 square feet of office space within 7 years. However, by establishing these quantities as the minimum thresholds in the request for proposal, the Navy implied its willingness to accept the minimum 450,000 square feet and wait up to 7 years for the space.

Management Comment. The Navy stated that backup plans are not required to the preferred alternatives if space for the collocating activities can not be provided on the new Broadway Complex.

Audit Response. Although the Navy commented that up to 1 million square feet of modern office space is required to house the potentially collocating activities, the Navy expects contractor offers to range from 450,000 to 660,000 square feet. Therefore, the preferred alternative will clearly not provide office space to satisfy the Navy needs. Thus, we question the Navy statement that backup plans are not necessary when the requirement of 1 million square feet will not be met.

Management Comment. The Navy stated that references to Air Force Plant 19 were not germane to current Broadway Project plans and stated that no new office space exists at Air Force Plant 19. Additionally, the FY 1993 base closure and realignment process identified Air Force Plant 19 as a consolidation site for Navy Command, Control, and Ocean Surveillance Center In-Service Engineering.

Audit Response. We deleted the portion of the report on Air Force Plant 19 because the base closure and realignment process eliminated other future uses of that property.

Management Comment. The Navy stated that administrative activities presently located on San Diego bases were interfering with present and planned operational requirements.

Audit Response. We interviewed base planners at four San Diego bases and were not able to find examples of the interference claimed by the Navy.

Management Comment. The Navy stated that the report took issue with the process the Navy used to arrive at its base closure and realignment recommendations and that the report conclusions were contrary to the legislation for closure and realignment.

Audit Response. Our intent was not to question the process used by the Navy or DoD. The intent was to question why the Broadway property was not among those properties, such as Air Force Plant 19, available to DoD activities for realignment consideration. We have deleted reference to the FY 1993 base closure and realignment process because the process has concluded; however, we believe that DoD lost an opportunity to identify other potentially higher priority uses for the property.

Management Comment. The Navy stated that the report conclusion that the Navy no longer needs 10 acres of the Broadway Complex is an error. The Navy states that,

even if status quo were maintained, the Navy would need the entire property for the present tenants at the complex in order to satisfy the tenants' parking requirements. The Navy stated that the \$50 million figure used in the report was based on clear land and entitlements granted by the City of San Diego that are tied into the Broadway Project. The property has considerably less value without entitlements and in its present uncleared state.

Audit Response. The Navy did not provide specific details to support the need for parking requirements. Parking requirements are a separate issue that, if valid, must be supported by the Navy under an economic analysis that fully considers environmental constraints, available mass transit, and the extensive parking adjacent to the Broadway Complex.

The property value of \$50 million referred to in the report was taken from a January 1, 1990, appraisal made by a Navy consultant. This appraisal was made before the entitlements had been granted by the City of San Diego and made no distinction between a "cleared" and "uncleared" site.

Management Comment. The Navy commented that although the report stated the property should be available for "other DoD uses," the report gave no suggested uses. The Navy has the largest requirement for facilities in the San Diego area.

Audit Response. Our point was that this property was only considered for Navy administrative office space. We do not believe that the large Navy requirement precludes consideration of other DoD uses. Defense agencies or the other Military Departments could have a need to consolidate or realign to such a property. The Navy should query other DoD activities. Logically, a consolidation of Navy fleet requirements in San Diego will lead to a consolidation and possible growth of other DoD activities that either support or are compatible with Navy fleet operations. We believe that after the Navy surveys other DoD activities, the project office should perform a cost benefit analysis to decide the best use for the Broadway Complex.

Management Comments. The Navy did not agree that downsizing in DoD made the proposed project risky. The Navy stated that the San Diego region has been designated as a fleet concentration location and thus the Navy is moving activities into the area. The Navy may identify additional users after the FY 1993 base closures that could require an additional 100,000 square feet of administrative office space.

Audit Response. Dynamic changes have occurred within the Navy since the 1984 decision to collocate administrative activities. We believe the Navy comment further supports the need to reevaluate the best use of the property. In addition, the statement supports the need to reevaluate how much administrative space the Navy needs and how the Navy should most effectively acquire the space. In order to clarify our position, we revised the portion of the report that discusses the risk associated with downsizing.

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefits	Amount and Type of Benefit
1.	Economy and Efficiency. Provides more beneficial use of excess Broadway Complex property by considering alternate uses of the property.	Undeterminable.*
2.	Economy and Efficiency. Avoids potential approval of inappropriate project.	Undeterminable.

*The actual amount of this monetary benefit will be determined when a final disposition of the Broadway Complex is decided.

Appendix E. Activities Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Washington, DC
Assistant Secretary of Defense (Production and Logistics), Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Navy

Chief of Naval Operations , Washington, DC
Deputy Chief of Naval Operations (Logistics), Washington, DC
Assistant Secretary of the Navy (Financial Management), Washington, DC
Assistant Secretary of the Navy (Installations and Environment), Washington, DC
Headquarters, Naval Facilities Engineering Command, Alexandria, VA
Southwest Engineering Field Division, San Diego, CA
Naval Station, San Diego, CA
Fleet and Industrial Supply Center, San Diego, CA
Public Works Center, San Diego, CA
Point Loma Naval Complex, San Diego, CA
Naval Personnel Research and Development Center, San Diego, CA
Naval Air Station, North Island, CA
Naval Amphibious Base, Coronado, CA
Region Nineteen, Naval Reserve Readiness Command, San Diego, CA
Board Inspection and Survey, Pacific, San Diego, CA

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Comptroller of the Department of Defense
Director of Defense Procurement

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Installations and Environment)
Comptroller of the Navy
Chief of Naval Operations
 Deputy Chief of Naval Operations (Logistics)
Commander, Naval Supply Command
Commander, Naval Facilities Engineering Command
 Commander, Southwest Engineering Field Division

Non-Defense Federal Activities

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center, General
 Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional Committees
and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Subcommittee on Military Construction, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Subcommittee on Military Construction, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government
 Operations

Non-Defense Federal Activities (cont'd)

Senator Barbara Boxer, U.S. Senate
Senator Diane Feinstein, U.S. Senate
Congressman Randy Cunningham, U.S. House of Representatives
Congressman Bob Filner, U.S. House of Representatives
Congressman Duncan L. Hunter, U.S. House of Representatives
Congresswoman Lynn Schenk, U.S. House of Representatives

Part IV - Management Comments

Assistant Secretary of Defense (Production and Logistics) Comments

Final Report
Reference



PRODUCTION AND
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON DC 20301-6000

JUL 14 1993

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: DIRECTOR, CONTRACT MANAGEMENT

Subject: Draft Quick Reaction Report on the Broadway Complex

This is in regard to your June 14, 1993, draft report concerning the Navy's Broadway complex. I agree with the overall finding in this draft report. Navy should provide a sound justification for this project before going forward. However, I must point out some inaccuracies contained in the draft report and its recommendation.

The Navy proposal, as a consolidation of activities within the same local area, does not result in a closure or realignment, which is defined as a reduction and relocation of personnel by statute. Hence, the Department already possesses the authority to execute the proposal or dispose of this property should the project not prove viable.

The draft report attempts to compare the military value of the Broadway Complex to the Naval Aviation Depot, Alameda and the Defense Distribution Depot, McClellan. These activities fall in very different functional categories and as such, the report's implication that closing the Broadway complex could be an alternative to the closure of these depots is unrealistic.

I hope you find these comments useful. I would also suggest that you contact Doug Hansen, my Director for Base Closure and Utilization, at 614-5356. He would be happy to provide you with further information regarding the base closure and realignment process.

David J. Berteau
David J. Berteau
Principal Deputy

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DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
WASHINGTON D C 20350 6100

2 July 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING

Subj: DRAFT QUICK REACTION REPORT ON THE PRIVATE DEVELOPMENT OF
THE NAVY BROADWAY COMPLEX, SAN DIEGO, CALIFORNIA (PROJECT
NO. JCD-8007)

Ref: (a) DODIG memo of 14 June 1993

Encl: (1) Navy Response to DODIG Draft Quick Reaction Report

Enclosure (1) provides the Department of the Navy response
to the subject draft report (reference (a)).

The information presented in the audit report does not substantiate the conclusions presented. Navy is concerned that the methodology used in developing the conclusions and recommendations do not follow generally accepted government auditing standards. The report uses examples of projects that are fundamentally different from the Broadway Complex Project to justify the contention that the project will be risky to the Navy. Further, the report uses unsubstantiated anecdotal reports to refute the Navy's requirement for the project, while giving little credence to professionally prepared planning studies that were approved by the Navy's Chain of Command, and does not take into consideration the costs that would be incurred with the implementation of the recommendations.

The Navy does not concur with the potential monetary benefits alleged in the report. The Navy's position is addressed in enclosure (1).

The results of the audit were issued as a Quick Reaction Report in an attempt to advocate that the Navy "submit the unneeded portion of the Broadway Complex for the 1993 base closure and realignment process for possible sale, exchange or DOD use." Not only is this recommendation based on an erroneous determination that any portion of the property is unneeded, but it is also contrary to the evaluation processes and submission dates established by legislation. Thus, it should have been fairly obvious that the recommendation option was not available even if it were the correct thing to do.


F. S. STERNS
Acting

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NAVINGEN
NAVCOMPT (NCB-53)

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Department of the Navy Comments

Final Report
Reference

COMMENTS ON DRAFT QUICK REACTION REPORT
ON THE PRIVATE DEVELOPMENT OF THE NAVY
BROADWAY COMPLEX, SAN DIEGO, CALIFORNIA
(3CD-8007)

EXECUTIVE SUMMARY

Congress authorized the Navy to redevelop the approximately 13.7 acres of Navy property at the Broadway Complex, San Diego, through a public/private venture (Section 2731, Lease and Development of Certain Property, San Diego, California, National Defense Authorization Act for FY 1987 (PL 99-661)). The legislation authorizes the Secretary of the Navy to lease property at that location to a private developer in consideration for the construction of Navy office space of equal or greater value. As required by the legislation, the Navy has formulated plans for the redevelopment of the Broadway Complex through a public process which involved the community and responded to its concerns.

The process resulted in the preparation of a development plan and urban design guidelines which were incorporated in a recently concluded development agreement between the City of San Diego and the Navy. The plan and guidelines were also considered at length in the course of preparing the joint Environmental Impact Statement and Environmental Impact Report (EIS/EIR) and the Navy's coastal consistency determination. The solicitation for offers to develop the Complex in accordance with the plan and guidelines will be published before the end of calendar year 1993.

The thirteen commands identified in Appendix B of the report, are presently accommodated at the Navy Broadway Complex in old inefficient and substandard office facilities. The redevelopment of the Complex will provide these commands with modern, efficient office and administrative space and will provide the opportunity to accommodate a number of other San Diego commands. Collocation of administrative office space at the Broadway Complex will allow for the optimum utilization of San Diego bases for fleet operational requirements which are expected to intensify due to the designation of the region as a fleet concentration area. The central location of the Broadway Complex at the San Diego transit hub facilitates compliance with regulations promulgated under the Clean Air Act and reduces exposure to associated implementation costs.

Revised (1)

The draft report of the Inspector General recommends that the Assistant Secretary of the Navy (Installations and Environment):
*(1) Cancel plans to develop the Broadway Complex through a public/private venture and eliminate the Project Office; and (2) submit the unneeded portion of the Broadway Complex property for the 1993 base closure and realignment process for possible sale.

Deleted (2)

exchange, or other DoD use."

Navy does not concur with the report's conclusion that substantial potential monetary benefits are available by canceling the Broadway Complex project. The conclusions and recommendations are not supported by the facts.

While the report states that the Broadway Complex should be made available for "other DoD use", no suggestions are provided as to what the other use may be. Of the three services, the Navy has the largest requirement for facilities in the San Diego area. Military Construction (MILCON) funds for administrative facilities are in perpetual short supply and are not likely to become available. This is one of the major underlying reasons why Congress authorized the Project.

In determining the value of the underlying land at the Broadway Complex it is now possible to consider the value added by the entitlements received as a result of the agreement with the City of San Diego and the determination of the California Coastal Commission in connection with the Navy's coastal consistency determination. The audit report incorrectly assumes that the land would be equally as valuable if the entitlements are abandoned by canceling the Project. The audit report also did not consider the value of the major reduction in ongoing operating and maintenance costs associated with the exchange of old office space for new. These savings are estimated as \$2.3 million per year.

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The report states that the government could realize \$37.5 million if the 10 acres of the Broadway Complex were to be sold, exchanged for office space, or used by other DoD activities. Based on current planning criteria the 10 acres are not available even if the project were canceled. However, if the ten acres were available it cannot be assumed that the Government would receive the fair market value. Experience shows that a substantial part or all of the "surplus" property may be assigned to Health and Human Services (HHS) for conveyance to homeless providers or that it would be conveyed as part of one or more public benefit uses.

Revised

The report claims that canceling the development project would eliminate \$1.7 million of project office expense from FY 1994 through FY 1999 (Appendix C, Potential Monetary Benefits). Although the report states they [auditors] "... were not able to determine future Project Office administrative costs..." the report estimates the monetary benefits on the basis of the FY-93 operating budget of \$280,000 per year. Extended for six years and rounded, the audit team arrived at \$1.7 million. This projected savings does not appear to have taken into consideration the fact the Broadway office will be disestablished at the end of FY 1993. Thereafter, the Navy estimates that the project will involve one workyear of effort at an estimated cost of \$100,000 per year or \$600,000 for Fiscal Years 1994 through 1999, not \$1.7 million as

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Department of the Navy Comments

Final Report
Reference

presented in the audit report.

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The report also states (page 6) that canceling the development project would avoid the cost to move the 13 Navy activities to the Broadway Complex. The report does not identify any costs associated with the move. Since no figures are provided, it is difficult to respond to the cost avoidance indicated. However, some of the activities are currently in substandard and/or leased facilities and will be moved eventually.

The potential monetary benefits associated with recommendation 1 did not consider some costs that will be incurred if the Broadway project is canceled. Such costs include: (1) rehabilitation of existing buildings for Navy use -- the status quo alternative of the economic analysis estimated that this option would cost \$26.6 million; (2) continued lease expenses for potential tenants of the Broadway Complex currently at \$661,500 per year; (3) cost for real estate screening and disposal \$225,000; (4) costs for National Environmental Policy Act documentation \$350,000. (5) the cost of operating the existing facilities which is \$5.6 million per annum.

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The report's conclusions and recommendations involving BRAC-93 demonstrate a lack of understanding of the purpose and process of BRAC-93 and appear to violate the provisions of the Defense Base Closure and Realignment Act of 1990 (the Act), 2901-2911, P.L. 101-510 (10 USC §2687) which prohibits the expenditure of funds for the purpose of identifying any military installation as being under consideration for closure, except as provided in the Act itself. This property was properly considered as provided in the Act.

The overarching grounds for the recommendations appear to be the conclusions that the project is not cost effective and that the Navy has not documented a need for the office space. However, the Navy did prepare an economic analysis which clearly demonstrates that the public/private venture is the most cost effective way to provide the office space. Numerous economic studies indicate a need for the space. Briefly, the project is cost effective because: (1) it allows the Navy to reap the financial benefit of having obtained the package of "entitlements" required to develop the property for its highest and best use; (2) it will replace old and inefficient structures with modern, energy efficient space which will substantially reduce the cost of maintenance, repair and utilities and; (3) the Navy's proposed high density redevelopment will enhance the land value, whereas the sale of property in its current condition will not achieve the proceeds suggested in the report.

The report does not dispute the fact that there is a continuing need for administrative office space to accommodate present users of the Broadway Complex as well as those commands which the Navy

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seeks to collocate at the Complex. The report does not indicate if the audit team made an attempt to reevaluate the reasonableness of the CNO's determination to collocate a number of the Navy's administrative office functions off of operational bases in San Diego. It only challenges the need for collocation on the basis of anecdotal information regarding the personal preferences of unidentified employees of a few prospective collocating commands.

The report contains a number of significant misstatements and also omits facts which support the Navy's position. The report does not present both sides of the issue and weigh the issue in an analytical approach. Accepted audit standards require that findings and conclusions be fully supported by sufficient, competent, and relevant evidence obtained or developed during the audit¹. The conclusions of the report are not supported by such evidence.

¹United States General Accounting Office, *Government Auditing Standards* (1988), p. 3-11

Department of the Navy Comments

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Reference

COMMENTS ON THE REPORT OF AUDIT OF THE NAVY BROADWAY COMPLEX PROJECT

Revised (1)
Deleted (2)

The Draft Quick Reaction Report on the Private Development of the Navy Broadway Complex, San Diego, California, recommends that the Assistant Secretary of the Navy (Installations and Environment): (1) Cancel plans to develop the Broadway Complex through a public/private venture and eliminate the Project Office; and (2) submit the unneeded portion of the Broadway Complex property for the 1993 base closure and realignment process for possible sale, exchange, or other DoD use. These recommendations are not supported by the facts. Furthermore, the second recommendation fails to recognize the impracticability of implementation under the constraints of the Base Closure and Realignment Act, and may be in violation of 10 U.S.C.A. § 2687.

Contrary to assertions in the report, the Navy does have a requirement for up to one million square feet of modern office space in the San Diego area. Acquisition of this space through a public/private venture as authorized by Congress is the most economical method of obtaining the space and represents a significant return on the government's land asset that could not be achieved under existing general legislation. Additionally the Project: (1) will generate significant cost savings in operations and maintenance; (2) will accommodate the collocation of administrative office space to allow for the optimum utilization of San Diego bases for fleet operational requirements which have intensified (and are expected to continue growing due to the designation of the region as a fleet concentration location) and; (3) will facilitate compliance with the Clean Air Act and obviate associated regulatory implementation costs.

While Part II of the report is entitled "Findings and Recommendations" there are no clearly identified findings in the body of the text to which we can respond. Therefore we have chosen to respond to that portion of Part II headed "Conclusions" (pages 12 and 13). Recognizing that other errors and omissions are scattered throughout the remainder of the report, we have quoted additional material from the body of the report under the appropriate response and deal with the quoted material without separate heading.

Page 10

CONCLUSION: (page 12) *"The Navy did not adequately support the need to collocate Navy activities from other Government office space in the San Diego area. We believe that the willingness of the Project Office to accept as little as 450,000 square feet of office space in exchange for the 65-year lease indicates that no real need exists to collocate the activities."*

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NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The Navy has not expressed a willingness to accept 450,000 square feet of office space.

Implementing legislation requires that the Navy cannot accept less than fair market value for the ground lease it proposes to exchange for the office space. The authorizing legislation requires that the value of the facilities to be obtained by the Secretary of the Navy be at least equal to the value of the ground lease. The 450,000 square foot minimum was established in the draft Solicitation for Offers because that is the amount of space required for continued accommodation of existing tenants. The draft Solicitation states:

... Offers, at a minimum, must provide for 450,000 usable square feet of Navy office space within seven years of the execution of the option for ground lease. The minimum has been established to ensure that sufficient office space will be available to accommodate all administrative activities presently located within the Navy Broadway Complex boundaries; however, the Navy anticipates receiving proposals for more than the minimum requirement.*

Also, as indicated, the draft solicitation made it clear that the government expects to receive an amount in excess of the minimum usable square feet.

In a competitive setting it is reasonable to assume that proposers will develop their proposals following an evaluation of relevant market criteria, i.e., through an analysis of the value of the ground lease as balanced against the cost of constructing Navy office space. The Navy made such an analysis and concluded that it was reasonable to expect an offer of approximately 660,000 square feet of usable space.³ This amount of space would be more than sufficient to satisfy the needs of the present users, together with the combined space requirements for 11 of the 13 potential collocating commands. The analysis will be updated prior to the release of the solicitation.

The Navy's collocation study concluded that those activities identified as candidates for collocation at the Broadway Complex were inappropriately located in areas where administrative functions conflict with present and planned operational requirements. The Navy determined that there were efficiencies to be realized through collocation and that the Broadway Complex is well located to take advantage of these efficiencies.

³Williams-Kuebelbeck & Associates, *Consolidated Report of Development Economics for the Navy Broadway Complex Project*, p. 39 (@10/12% discount rates)

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including its proximity to San Diego's transportation and transit hub. The recommendations of the collocation study were approved by the Chief of Naval Operations and authorized by Congress. The audit counters this decision with anecdotal information gathered by the auditors from a few unnamed individuals at the four commands selected for site visits indicating that they "did not welcome the move and preferred to remain in the existing space." These personal preferences do not make a compelling case for canceling the Broadway Project.

The report states "further, the Navy has no plan to provide office space for the collocating activities if developers do not offer more than 450,000 SF of space. The collocating activities would remain in their existing Government owned space." If the Navy has no plan, it cannot be assumed that the collocated activities would remain in their existing government-owned space. It can only be assumed that the Navy will have to develop a new plan. Additionally, the second sentence is not totally correct. Several commands are currently located in leased facilities at an estimated annual cost of \$661,500.

The Navy's Shore Activities Land and Facilities Planning Process (SALFPP) does not require that Navy activities include back-up plans to the preferred alternative in the Shore Facilities Planning System documents or in Master Plans.³ Since the Navy's studies have validated the feasibility of this plan to acquire the needed space, back-up plans are not required.

The report also indicates that because the Navy plans to take control of Air Force Plant 19 the need to relocate the activities to the Broadway Complex no longer exists. Some Navy activities are being located at Air Force Plant 19 as part of the currently proposed realignment. However, these activities are not listed in Appendix B as potential tenants of the Broadway Complex. Therefore use of Air Force Plant 19 does not diminish the collocation requirements set out in Appendix B.

³NAVFACINST 11010.44E/E1, Shore Activities Planning Manual

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CONCLUSION: (page 13) *"The Navy did not adequately justify the need to retain ownership of and remain on the Broadway Complex property."*

Page 10

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The report proposes that the Navy needs to keep only the buildings on the northern quarter of the site. The report assumes that all of the remaining property will then be excess to the Navy's needs. This conclusion is not supported by the SALFPP which established a parking requirement for the remaining property.

Also, the Navy is relocating activities into San Diego. After the FY-93 base closures, there may be additional potential Navy uses for the site. Navy facilities planning procedures require that a study of alternative uses be completed before land is exceded. The level of study reflected in the DoDIG report would not be considered sufficient and fails to consider the objective of the project which is to make operational area available by collocating administrative functions at the Broadway Complex.

CONCLUSION: (page 13) *"Public/private ventures have proven to be risky in the environment of DoD downsizing and realignment."*

Revised
Pages
8 and 9

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The report concedes that public/private ventures (P/PVs) "have at times been beneficial for DoD." However, the report does not distinguish among the several types of P/PVs, some of which are successful and relatively risk-free to the Department of Defense (e.g., Norfolk, Mayport, Washington, D.C.). Notwithstanding those successes and disregarding the unique characteristics of the Broadway Complex Project, the report concludes that the project is risky on the basis of two fundamentally dissimilar projects. Those examples cannot be viewed as supporting the conclusion.

Under the terms of the Staten Island public/private venture mentioned in the report, the Navy has a 20-year commitment for lease payments for housing which serves a base which may close under BRAC-93. In the Fort Ord case mentioned in the report, the Army provided a ground lease at no cost to a developer in return for the construction of housing units to be rented to military personnel. Fort Ord is closing under BRAC-91. As the Army lease is structured, the term of the lease will continue and the property will not be available for other DoD uses. The developer will be able to rent the units to the general public. The result is that the developer enjoys "free rent" for the remainder of the lease term. That cannot happen in the Broadway Complex Project.

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In contrast to the examples cited in the report, the structure of the Broadway Complex Project is such that the Navy will not have long term rental obligations. Nor will the developer be placed in a position to enjoy "free rent." Full consideration for the long term lease will be paid to the Navy at lease inception through the financial guarantee of completion of the Navy office space. Should the office space no longer be required by the Navy in the future, it would be ideally located and suited for other governmental uses, or for sale or lease as commercial office space. The Broadway Complex Project has been purposely structured to avoid the kind of risks that the audit report discusses.

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The report also concludes that DoD "downsizing and realignment makes commitment to the proposed plan for the Broadway Complex risky" and that the "development plan does not reflect the current Defense environment." The report then makes the general comment that there have been and will continue to be reductions in the Defense budget, military personnel and the civilian work force. This general trend has not had the impact on San Diego as it has in other areas of the Defense establishment. On the contrary, the downsizing of the Navy has resulted in the establishment of major fleet concentration areas, including San Diego. For example, the recommendations of the Department of Defense in BRAC-93 would result in net gains in personnel in San Diego. Construction of approximately 100,000 square feet of additional administrative office space would be required to accommodate the activities relocated into San Diego or activities relocating from San Diego bases identified for closure. MILCON costs for this administrative office space, in FY 94 dollars, could be estimated at \$9.4 million. Additionally, the current basing and funding posture of the Navy makes it imperative that costly older administrative facilities be eliminated from operational bases. The replacement of older buildings with the Broadway Complex will save \$2.3 million in operations and maintenance costs.

Page 11

CONCLUSION: (page 13) "The Navy did not consider viable alternative uses for the property or alternative means of obtaining more modern office space, such as exchanging all or part of the Broadway Complex for an office building on Government property or renovating existing structures on part of the Broadway Complex and using the rest for other purposes."

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The Navy did consider a number of alternatives for the use of the property and alternatives for acquiring more modern office space. Even though the Broadway Complex is not excess to the needs of the Navy and even though there is no authorization for an exchange, the EIS prepared for the project did consider the alternative of exchanging the entire site for an office building

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located in downtown San Diego. Also, in connection with the economic analysis performed by the Project Office, the renovation of existing structures was considered as were the alternatives of leasing commercial office space and MILCON construction.

The report incorrectly states that while the economic analysis performed by the Project Office considered the option to "retain the Broadway Complex and renovate existing office space to accommodate the existing tenants (that is, maintain the status quo)," it did not consider "renovating the existing structures to provide modern office space for the existing tenants, leaving about 10 acres of the Broadway Complex for other DoD or Federal purposes." The language emphasized highlights one of the report's basic misconceptions. The "status quo" option will not free up 10 acres for other federal uses. The space not occupied by building footprints will be required to accommodate parking requirements.

Regardless of what method is used to redevelop the Broadway Complex, parking requirements will have to be met. If redevelopment is through a public/private venture, parking will be fully enclosed, either below the surface or encapsulated within the buildings to be erected. This is required by the development plan and urban design guidelines. The elimination of surface parking spaces as well as the development of high rise buildings allows more intensive land use which optimizes the value of the underlying land. This aspect of the public/private venture was overlooked in the report.

The "status quo" alternative described in the economic analysis is based on the assumption that the existing office and warehouse buildings will be remodeled and renovated to provide the required square feet of usable space. The same quantity of space was used in the other alternatives, to allow for a consistent comparison. For the same reason, each alternative is assumed to include an equal number of parking spaces. When those spaces are provided in the status quo alternative, the total area of the Broadway Complex is utilized. No acreage would be left for other uses.

The economic analysis clearly indicates that imputed land values of the various alternatives studied included land for surface parking.⁴ At present, the areas within the Broadway Complex not occupied by buildings, railroad tracks, streets and other uses are utilized for parking. There is a major deficiency in meeting the parking requirements for this site. In the past, as buildings were demolished, the underlying land was used to partially satisfy the parking deficiency. There are several

⁴Draft Economic Analysis for the Navy Broadway Complex San Diego, CA (19 Oct 90), p 4

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Reference

Revised
Recommendation
1

large commercial parking lots at the present time in the vicinity of the Broadway Complex; however, these lots are owned by the San Diego Unified Port District and a subsidiary of the Santa Fe Railroad Company. Both of these owners have plans for developing the property, further exacerbating the existing parking dilemma.

The conclusion states that the Navy did not consider an exchange of all or part of the property for office space on government property. This is currently not a viable option. The report does not indicate that any such property is available, nor is the Navy aware of any such property nor is there legislative authority for the exchange.

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In the review of the economic analysis, the report also indicates that the Project Office did not consider "trading part of the Broadway Complex for new office space at Air Force Plant 19 (which at the time of the economic analysis was not under Navy control)...". Air Force Plant 19, built as an aircraft manufacturing plant during World War II, has become excess to the Air Force's needs. There is no "new office space" at that location. Air Force Plant 19 is identified in BRAC-93 as the receiver site for laboratory use and office consolidation for Navy Command, Control and Ocean Surveillance Center In Service Engineering (NISE). It is not germane to current Broadway Project plans.

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The report further suggests that the economic analysis should have considered "offering the Broadway Complex through the base closure and realignment process for other Federal, State or City government use." This DoDIG suggestion does not recognize that the Navy has a valid current requirement for office space and associated parking for the entire 13.7 acres. The suggestion appears to stem from a misunderstanding of both the base closure and realignment process and the application of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. § 483).

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CONCLUSION: (page 13) *"Under the current proposal, Navy maintenance, repair, and utility costs are under the developer rather than Navy control, thus the potential exists for the costs to escalate unchecked."*

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

This conclusion is misleading because of its selective use of information from the Navy's economic analysis and the draft solicitation document. In the economic analysis, the Navy did estimate that the cost of maintenance, repair and utilities for the office space to be developed through the public/private venture, would be \$3.3 million. The Navy also estimated in that analysis that the continuing cost of operating the Navy's

Department of the Navy Comments

existing buildings would be \$5.6 million. Contrary to the impression left by the report, if the public/private venture accomplishes the Navy's preferred alternative of having its office space in a wholly government-owned building, there will be no developer involvement in operating expenses³.

The report erroneously suggests that the \$3.3 million annual cost for maintenance, repair and utilities is a new cost associated with the new office space. Maintenance, repairs and utilities are not new costs. The report does not consider the fact that the current cost of maintaining and repairing existing government space (which is up to 70 years in age) far exceeds the cost associated with newly constructed space. The report also does not address that there are substantial utility cost savings associated with modern, energy efficient buildings.

As required by the OMB Circular (A-104), the economic analysis prepared in 1990 compared the cost of several alternatives for developing the required office space. These alternatives were to construct the facilities through MILCON authority, to lease commercial office space, to obtain the space through a public/private venture, and to maintain the "status quo" (with modifications). The analysis indicates that under the "status quo" alternative, the cost of maintaining and repairing existing buildings at the Broadway Complex would be twice as costly as maintaining and repairing new space "reflecting the age of the structures and covering major repairs, including seismic remediation." The Navy analysis also concluded that the cost of providing utilities for the existing structures would be significantly (33%) higher than the cost of utilities for modern, energy efficient space⁴. Therefore, maintenance, repair and utility expenses are projected to decrease, not increase, under the public/private venture scenario. When compared to the status quo scenario, the public/private venture scenario would represent an annual saving to the Navy of approximately \$2.3 million in 1995 dollars. While the report expresses concern about the undefined, one-time cost of moving collocating offices to the Broadway Complex, the annual savings to be achieved make the consideration of such costs de minimis.

The Navy prefers to have a developer provide office space in a building to be owned in fee by the government. However, in order

³If some or all of the Navy's office space is provided in a commercial office building, the developer will be able to pass through that portion of the operating expenses attributable to that space. The "pass through" is severely circumscribed by the draft Solicitation for Offers and subject to government audit.

⁴Draft *Economic Analysis for the Navy Broadway Complex San Diego, CA* (19 Oct 90), p. 5

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Reference

to achieve optimum competition and allow for the greatest amount of flexibility in the preparation of proposals, the Project Office determined there was value in allowing prospective developers to propose that some or all of the Navy office space be provided in a building not totally occupied by the Navy. This would allow the developer to provide a majority of the space in a stand alone Navy building, with the balance being included as part of a larger commercial office building to fully utilize the entitlements. Although the draft Solicitation for Offers permits this alternative, it makes it clear in the description of criteria for selection that the Navy prefers to have the space provided in a building to be owned in fee by the government. The draft solicitation contains a lease to be used in the event that the Navy chooses to accept space in a commercial office building. It defines and limits those 'operating expenses' which are to be shared² and gives the government the right to audit those expenses. Therefore, it is incorrect for the auditors to say that these expenses are under the control of the developer. On the other hand, assuming some degree of inflation, operating costs will increase regardless who operates a given building. The existing buildings are owned by the Navy. The Navy pays all the costs of maintenance and repairs and for the utilities. These costs are not presently capped and it is reasonable to assume that they will continue to adjust over time. In all probability, the major percentage of new office space to be developed at the Broadway Complex would also be owned by the Navy and the Navy would continue to fund maintenance, repair and utilities. Nothing would change except that costs would be lower, reflecting the more modern facilities, thus saving the Navy substantial maintenance, repair and utility expenses. In the event that all or a portion of the Navy office space was provided in a commercial office building, the Navy's obligation to pay for its share of operating expenses would also be favorably affected by the lower costs associated with new space.

CONCLUSION: (page 13) "Office space will not be available for Navy use for about 7 years, potentially requiring the Navy to renovate existing Broadway Complex office space."

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The proposed solicitation documents require that the successful developer provide at least 450,000 square feet of usable space within seven years. Therefore, seven years is the maximum period of time, not the minimum, within which the Navy is to obtain its office space. As set out in the draft Solicitation for Offers, the "value of the office space offered, measured by the amount of

²Appendix II: Section II: Exhibit C: Lease of Office Space to the United States, pp.4-12

space and when the space will be available' is the evaluation factor with the highest priority. Therefore, it is anticipated that the competitive process will result in one or more proposals offering to deliver space at an earlier date.

The majority of the space in Building 1 is categorized as substandard in the Navy Facility Assets Data Base. Some interim renovations may be required, but would be reviewed on a case-by-case basis to determine if the work is economical in view of the schedule for replacement of the space. The renovations would be less costly than the total rehabilitation that will be required if the Broadway Project is canceled. The possibility that renovations will be required pending the developer's completion of the Navy office space is exaggerated by the report's incorrect assertion that the developer would not construct the space for about seven years.

CONCLUSION: (page 13) *"Not considering an activity with a low military value for base closure or realignment is not fair to other localities that will lose military installations during the base closure and realignment process."*

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The report takes issue with the process utilized by the Navy in arriving at its base realignment and closure recommendations and takes issue as well with the recommendations of the Secretary of Defense to the Defense Base Closure and Realignment Commission. This appears to be contrary to section 2909(b) of the Act which prohibits the expenditure of funds available to DoD for the purpose of identifying any military installation as an installation to be closed or realigned or as an installation under consideration for closure or realignment except in the manner provided in the Act itself.

The Department of the Navy analyses and recommendations concerning base closure and realignment were made in accordance with criteria established by the Deputy Secretary of Defense. The first step of the process required that all Navy military installations be categorized. Military value analysis, if required to be performed under the criteria, was performed only within categories or subcategories to avoid 'apples and oranges' comparisons.¹ The suggestion that the Broadway Complex (a portion of the San Diego Naval Supply Center) be compared with the Naval Aviation Depot (NADEP), Alameda or the Defense

¹Executive Summary, *The Report of the Secretary of the Navy to the Secretary of Defense in Response to the Requirements of the Defense Base Closure and Realignment Act of 1990*, pp. 1-20.

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Distribution Center, McClellan Air Force Base demonstrates a lack of understanding for the process. Since the Broadway Complex houses the administrative functions of several important Navy tenants (Naval Base, San Diego, (COMNAVBASE), Naval Supply Center (NSC)) it does not have excess capability for its primary function. On the other hand, industrial activities, such as aviation rework or ship repair are not conducted at Broadway. Therefore, the closure of Broadway would not have any impact on the closure of NADEP Alameda, and would not affect the "fairness" of the base closure process.

Revised

RECOMMENDATION 1. Cancel Plans to develop the Navy Broadway Complex by public/private venture and eliminate the Project Office.

Deleted

Monetary Benefits (Appendix C): "Funds put to better use of \$1.7 million in the Navy Operations and Maintenance, Navy, appropriation for FYs 1994 through 1999."

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

Canceling plans to develop the Broadway Complex by public/private venture would make it unlikely that the Navy would be able to obtain much needed modern administrative office space and require the continued expenditure of funds for the higher maintenance, repair and utility costs associated with old and inefficient space.

Navy does not concur with the \$1.7 million potential monetary benefits associated with this recommendation. The auditors suggest canceling the future project office will avoid recurring office costs. The FY 1993 operating budget for the project office was \$280,000. Appendix C indicates \$1.7 million savings by eliminating the Broadway office. The Broadway office will be disestablished at the end of FY 1993. The Navy estimates that the project will involve one workyear of effort at approximately \$100,000 per year. Thus, the cost would be an estimated \$600,000 not \$1.7M for the period FY 1994 through FY 1999.

The potential monetary benefits associated with recommendation 1 did not consider some costs that will be incurred if the Broadway project is canceled. Such costs include: (1) rehabilitation of existing buildings for Navy use -- the status quo alternative of the economic analysis estimated that this option would cost \$26.6 million; (2) continued lease expenses for potential tenants of the Broadway Complex currently at \$661,500 per year; (3) cost for real estate screening and disposal \$225,000; (4) costs for National Environmental Policy Act documentation (conservative estimate) \$350,000. (5) the cost of operating the existing facilities which is \$5.6 million per year.

If the Navy cancels the project and disposes of some of the property, additional costs would be incurred. The Navy does not have exact costs for screening or disposing of the property. However, a relatively uncomplicated site would cost approximately \$225,000 in real estate actions, \$345,000 for NEPA (National Environmental Policy Act), and \$1.4 million for environmental compliance and restoration. This would exceed the \$600,000 savings to be derived from canceling the project.

RECOMMENDATION 2. Submit the unneeded portion of the Broadway Complex property for the 1993 base closure and realignment process for possible sale, exchange, or other DoD use.

Monetary Benefits (Appendix C): "Funds put to better use of \$37.5 million in the Base Closure Account."

NAVY MANAGEMENT RESPONSE. DO NOT CONCUR.

The recommendation is premised on the supposition that there could be continued operation of all existing activities on a portion of the Broadway Complex property. There is no suggestion in the report that there be a reduction in personnel at the Broadway Complex or that there be a "closure" as contemplated by 10 U.S.C.A. § 2687.

The Navy will require all of the Broadway Complex, even if the Navy were to cancel plans to collocate the specific commands listed in Appendix B (page 18). Although most of the commands are located in buildings 1 and 110, some of the requirements are satisfied in other existing Broadway Complex buildings. New space would have to be constructed, or more than just buildings 1 and 110 would have to be retained. There is currently a shortage of parking spaces in the Complex, and Navy would satisfy the deficiency before excessing any land.

The report implies that \$37.5 million could be realized through the sale of 10 acres of the property. This figure was derived by determining that Buildings 1 and 110 "occupy one fourth (3.5 acres) of the 13.5 acres." This would leave 10 acres (three-fourths) of the 13.5 acres. For purposes of determining the fair market value for the redeveloped Broadway Complex, the Navy study estimated that the land would be worth \$50 million. Therefore, the report assumes that the value of the 10 acres would be 75 percent of the value of the total property. This figure is not realistic for several reasons:

(1) It does not take into account the cost of demolishing Building 12, a seven story concrete warehouse, estimated at \$1.8 million in 1987. Several smaller buildings on the site also would have to be demolished.

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(2) The \$50 million estimate assumes the total redevelopment of the property as a coherent integrated project with intensive high rise development and attractive amenities. The Navy's retention of nearby structures would preclude such an integrated development.

(3) If the Navy were to retain Building 1 and 110, Military Construction funds would have to be obtained to improve the facilities which are considered substandard. In today's funding climate, it would be many years before funds were obtained, making them a liability to the adjacent complex.

(4) The developer would have to obtain new approvals from state and local governments, increasing risk and uncertainty, and thus decreasing value.

There is no guarantee that the 10 acres will ever be sold at market value under the property disposal process. Experience with previous disposals indicates that if the property were to be declared surplus, there would be requests for transfers under the McKinney Act and for public benefit conveyances at discounts of up to 100 percent. In any event it is unlikely that the sales would generate anything approaching the full fair market value.

The recommendation does not consider the restrictions in the Defense Base Closure and Realignment Act of 1990 which prohibit the expenditure of funds for the purpose of identifying any military installation as an installation under consideration for closure or realignment, except as provided in the Act itself. The property was properly considered under the Act. Therefore, discussion of the base closure and realignment process seems to be inappropriate.

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