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UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MEMORANDUM FOR: Mary Glackin
Deputy Under Secretary
for Oceans and Atmosphere

FROM: 
Todd J. Zinser

SUBJECT: Facility Replacement Alternatives for
NOAA's Southwest Fisheries Science Center

We evaluated NOAA's March 2008 business case for replacing the facilities that currently house the Southwest Fisheries Science Center in La Jolla, California, in which the agency considered three options for addressing safety concerns. NOAA prepared this business case as Exhibit 300, "Capital Asset Plan and Business Case Summary," for OMB.

All three alternatives propose immediately moving employees from two of the four buildings (buildings B and C) into leased space and demolishing these two for safety reasons. Beyond this point, the scenarios differ.

- Alternative 1, NOAA's preferred choice, proposes constructing a 120,000 square-foot replacement facility on land offered by the University of California San Diego under a 65-year rent-free lease. At the end of the lease, the land would revert back to the university. NOAA will have the option of transferring to the university—at no cost—title to the building and any other improvements it made, or it may eliminate the improvements at its own expense.
- Alternative 2 involves a combination of renovation and phased leasing: buildings A and D would be rehabilitated over a 5-year period, during which time NOAA would lease temporary space to house employees. Once renovated, A and D would be reoccupied until the end of their useful life, projected to be year 2029, at which time the agency would lease new space. Buildings B and C would be vacated immediately and employees permanently moved into newly leased space.
- Alternative 3 is a full-lease option. NOAA would vacate the entire facility now and permanently lease buildings to accommodate all employees.



As detailed below, we found significant problems with a number of NOAA's assumptions and calculations used in the business case, many of which have been in flux during the course of our review.

According to NOAA, alternative 1, construction of a new facility on land belonging to the University of California, is the least expensive. The March 28, 2008, estimate presented savings of more than \$76 million over alternative 2 and \$126 million over alternative 3. Alternative 1 is consistent with direction included in the FY 2006 appropriations act, which authorized the Secretary of Commerce to enter into a lease with the University for land at the San Diego Campus in La Jolla for a term not less than 55 years. It is also consistent with NOAA's nonfinancial reason for preferring alternative 1 as described in the business case—collocation with the University's Scripps Institution of Oceanography, with which it has collaborated for over 50 years. Our review of the estimate shows alternative 2 as the more cost-effective, offering savings of \$1.61 million and \$26.46 million over alternative 1 and 3 respectively.

We reported the results of our review to NOAA in August 2008, and recommended several adjustments to NOAA's estimating methodology (table 1).

Table 1. Primary Problems Identified in OIG Review of March Estimate

1. *Excessive spikes in lease costs.* Alternatives 2 and 3 showed dramatic increases in lease rates every sixth year. For example, lease costs for alternative 2; lease 1 were \$2.38 million in 2008 and increased by 2 percent annually through year 2012. But in year 2013, they jumped 17 percent, stabilized at 2 percent per year for the next 5 years, and jumped 29 percent in 2018. By year 30 the lease increased by 92 percent from the previous year.
2. *Different base years.* Calculations of inflation and net present value for alternative 3, lease 1, began in 2010, while calculations for alternatives 1 and 2 began in 2009. Although the time frame and duration of the lease periods differ, the base year should be consistent to ensure that dollar values remain comparable.
3. *Omission of GSA management fee.* NOAA had not factored into the original assumptions a 7 percent fee charged by the General Services Administration for managing leased properties.
4. *Inconsistent moving and relocation costs.* NOAA's method for calculating moving and relocation costs in alternatives 2 and 3 was not consistent with the method used in alternative 1. Alternatives 2 and 3 assume moves every tenth year at a relocation cost of \$100 per rentable square foot based on actual costs incurred for a similar move of NOAA employees and facilities in Hawaii in 2006. In contrast, the \$7.46 million estimate for these costs in alternative 1 was based on construction estimates for the one-time relocation of operations to a 120,000 gross square foot facility, including furniture, fixtures, and moving costs.

On September 15, NOAA issued a memo agreeing with most of our recommended changes and provided a revised analysis, in which the estimated savings for alternative 1 dropped to \$11 million over alternative 2 and \$38 million over option 3 (table 2). However, the new estimate introduced new assumptions and other modifications.

Table 2. Comparison of Varying Cost Analyses (\$ in millions)

Analysis	Alternative 1	Alternative 2	Alternative 3
NOAA's March 2008 analysis	\$117.07	\$193.46	\$243.11
Cost Benefit		(76.39)	(126.04)
OIG review of NOAA's March 2008 Analysis	113.80	112.19	138.65
Cost Benefit	(1.61)		(26.46)
NOAA's September 2008 analysis	115.88	127.01	153.93
Cost Benefit		(11.13)	(38.05)

Addressing the center's safety status is a longstanding issue: NOAA's current proposals are the most recent of several iterations considered over more than a decade, and prompted by a 1997 report issued by my office that discussed possible relocation options.¹ NOAA commissioned a study with SRI International in response to a 2004 congressional request for follow-up on the relocation,² which referenced our 1997 report and subsequent questions posed by OMB.³ The SRI study looked primarily at NOAA's earlier proposals—specifically focusing on options for collocation with existing facilities. SRI reviewed programmatic reasons, cost-benefit assumptions, space constraints, and costs associated with moving staff from the center to other NOAA sites in California, Washington, and Hawaii. SRI told us that it did consider the

¹ U.S. Department of Commerce Office of Inspector General, November 1997. *NMFS Laboratory Structure Should Be Streamlined*, STL-8982-8. Washington, DC: Commerce OIG.

² The FY 2004 Omnibus Appropriations Conference Report stated that Senate and House appropriators "remain concerned regarding the seismic and erosion conditions near the Southwest Fisheries Science Center (SWSC). In 1997, the Department of Commerce Office of the Inspector General issued a report, which highlighted options for relocation of the SWSC. The [Appropriations] Committee directs NOAA to issue a follow-on report on the best location for SWSC facilities by no later than June 30, 2004." http://www.calinst.org/pubs/omn04c.htm#_1_3

³ During budget formulation discussions.

“reasonableness of the assumptions” NOAA used to prepare the March 2008 business case. But it did not validate any of the numbers in NOAA’s proposed building and leasing costs for staying in San Diego.

Developing accurate cost estimates for capital improvement projects is a difficult and complex undertaking, and these federal programs are particularly susceptible to waste and mismanagement if not carefully planned and monitored. Given the problems we have identified with NOAA’s current cost projections and the significant fluctuations between NOAA’s first and second estimate, we recommend that NOAA’s analysis and cost estimates be independently validated before the agency proceeds with a course of action. This should help ensure that NOAA makes the best choice for replacing the La Jolla center. If you concur and obtain an independent review, we request a copy of the reviewer’s report when it is complete.

If you wish to discuss this matter further, please do not hesitate to contact me at (202) 482-4661, or Judith Gordon, assistant inspector general for audit and evaluation, at (202) 482-2754.

cc: William F. Broglie, NOAA Chief Administrative Officer