

3 JUL 1978

MEMORANDUM FOR: Chief, Plans and Programs Staff, OL

FROM: [REDACTED]  
Deputy Chief, Real Estate and Construction  
Division, OL

SUBJECT: Comments on Issue S-9, Public Utility  
Management, Administrative Services

REFERENCE: Draft Report of the Administrative Services  
Reorganization Project dtd 15 Jun 78,  
Supply & Support Services Task Force,  
Findings & Alternatives (OL 8 2855)

STATINTL

1. Most domestic utility services are provided to the Agency as part of the General Services Administration (GSA) Standard Level User Charge (SLUC) system wherein we pay a unit rate for space, including utilities. There are exceptions, however, and utilities for Agency space located on military compounds or not otherwise subject to the SLUC system are paid for under the interagency support agreements or directly by the Agency. These latter instances are few, so, for the most part, the Agency is already subject to GSA utility policies and procedures through the SLUC system. Notwithstanding this, we have several observations concerning the GSA recommendations contained on pages 77 and 78 of the report:

a. Regarding the recommendation that GSA's role be expanded and enhanced with a new charter to develop Government-wide public utility policies, procedures, and management systems; I assume that the intent is to include the military services, as well, under GSA's control even though this is not specifically stated. This is a little bit like the tail wagging the dog since, per the report, GSA accounts for only 25 percent of Government purchased utility services while the remaining 75 percent represents usage by the military and other civilian agencies. On page 78 the report estimates that related savings through improved management would amount to \$10 million to \$14 million annually. Since no further

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explanation is provided as to how these figures were derived they are certainly suspect. Be this as it may, I personally believe that the present decentralized system, in which the military and many civilian agencies have independent authorities to arrange for utility services based on their own unique needs, is far better than the proposed centralized system under which GSA, having 25 percent or less of the total requirement, would establish policies and procedures for all Federal agencies. Rather the Supply and Services Task Force should be more concerned as to whether or not Federal agencies under the SLUC system administered by GSA are receiving full value for the money they pay GSA for utility and other services. I suspect that if the truth were known, the portion of the SLUC bill attributable to utilities and GSA administrative costs associated with those utilities exceeds what it would cost agencies to procure those utility services directly.

b. Regarding the other recommendations contained in the report for prompt payment of bills, better rates to reduce total cost of utilities, systems to reduce peak loads, and the development of recommendations to improve the method of Government utility contracting should all be supported by this Agency. We do have some concern, however, as to whether the total annual savings associated with these recommendations as stated on page 78 would, in fact, be anything like those estimated. Our concern is based simply on the fact that there is no description of the approach used in the development of the savings cited.

2. Please incorporate our views into any consolidated paper sent to the President's Reorganizaion Project. I am particularly concerned that the Agency is not receiving the full value for utility charges included in the present SLUC rates and would strongly recommend that the Supply and Support Services Task Force be tasked to examine exactly how

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much GSA administration costs add to the cost of utility services received under the SLUC system. I strongly suspect that the additional GSA costs result in a utility charge higher than that which we would otherwise have to pay if we were free to contract for utility services directly. STATINTL



STATINTL

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## I. INTRODUCTION

This is an assessment of the Public Utility Services aspects of Contracting, Management, and Rate Intervention, provided by GSA to other Federal user agencies.

The study included interviews of selected Federal user agencies, utility company suppliers, State Regulatory Commissions, the Federal Energy Regulatory Commission, State Governments, private sector users, and GSA personnel.

The Federal Government spends an estimated \$2.4 billion for purchased public utility services and for operations costs for Federally-owned heating and generating plants (exclusive of utility services supplied under total building leases).

## II. BACKGROUND AND CURRENT SITUATION

Section 201 of the Federal Property and Administrative Services Act (FPASA) of 1949, as amended (40 USC 481), provides that the Administrator of GSA shall procure and supply non-personal services for the use of the executive agencies and perform functions related to procurement and supply and that he shall represent other agencies in negotiations with public utilities and in proceedings before Federal and State regulatory bodies. The Secretary of Defense may exempt DoD whenever he determines it in the best interest of national security.

The procedures by which public utility services are acquired for Federal agency users is quite varied. Approximately 25% of purchased utility services are paid by GSA for buildings operated by GSA. These utility charges are included in the GSA Standard Level User Charge (SLUC) system wherein tenant agencies pay a total unit rate for space. The remaining 75% represents usage by military and civilian agencies with large self-contained installations.

The military services arrange for public utility services, usually by negotiating a contract with a utility supplier under provision of Supplement 5 to the Armed Services Procurement Regulations (ASRP), or by a contract based upon an Area-wide Agreement (negotiated by GSA) which may be in existence for the service area of interest. A delegation of authority signed between the Administrator of GSA and the Secretary of Defense on October 11, 1954 allows DoD to handle its own utility requirements.

Several agencies have authorities for procuring utility services (and other services as well) under their original agency authorizations, or under Section 602 of the FPASA (40 USC 473). Examples include the Federal Aviation Administration (now a part of the Department of Transportation), Veteran's Administration, Federal Reserve Board, U.S. Department of Agriculture, DHUD, TVA, CIA, the Bonneville Power Administration, the U.S. Postal Service, and NASA. In some instances a contract may be negotiated with a public utility company using much of an existing GSA Area-Wide Agreement; in others the commercial utility company commercial service forms may be used. In some instances, the GSA contracting process causes extended delays to agency programs.

The GSA Area-Wide Agreement is a comprehensive contract negotiated with utility companies for their entire service area, usually for a ten-year term (or for one-year renewable terms), and provides for the inclusion of various Federal users by the completion of a contract-appendix form, which resembles a utility company commercial agreement.

The outstanding feature of the GSA Area-Wide Agreements (and of the military service contracts) is the inclusion of some 17 mandatory clauses and seven optional clauses (FPR 1-4, 410-4, 5; GSA Form 1685). These clauses cover a variety of socio-economic subjects which have been mandated by Federal law and by Executive Order for inclusion in Federal purchase or supply contracts. These clauses are now being interpreted to also apply to various levels of sub-contractors and suppliers and that a utility company or contractor must enforce compliance upon its suppliers. This requirement for contractor enforcement of mandatory clauses upon sub-contractors is causing problems and incurs added costs, which State commissions are concerned about. These added costs are discriminatory to other customers of the utility company. There are also serious questions of contract law and performance thereunder which must be resolved.

As a result of recent enforcement actions against utility companies, many utilities are refusing to sign or to renew the GSA Area-wide Agreements or to accept GSA contracts for services. This makes it necessary for GSA to sign the commercial form to receive service. In these instances, the Public Buildings Service/GSA makes up monthly purchase orders (as obligating documentation) which the utility companies would prefer not to receive.

Officials of the Federal Procurement Regulation staff cite existing legislation (31 USC 200 (a)(1)) as requiring a written agreement between Federal agencies and suppliers.

"(a) After August 26, 1954, no amount shall be recorded as an obligation of the United States unless it is supported by documentary evidence of --

(1) a binding agreement in writing between the parties thereto, ...or"  
(Followed by 7 alternatives or exceptions).

The Federal Procurement Regulation staff has not accepted subsection 7 of this same statute which cites as an exception

"(7)... services performed by public utilities...".

This appears to provide that the approved tariffs of State public service commissions and the service agreements of public utility companies are acceptable as "documentary evidence" of an obligation by the United States Government.

There are additional cases now pending in the Supreme Court (U.S. vs. New Orleans Public Service, Inc., and U.S. versus Mississippi Power & Light Co.) that may further complicate the contractual situation between the Federal Government and public utility companies (both energy and transportation companies). Since it has been well established that utility companies are covered by the Federal law, simplifying the contracting process by legislation that affirms the intent of 31 USC 200 (a)(7) would make it possible to use commercial utility contract forms in many cases.

Inquiries disclosed that the only documentation relating to utility service arrangements used in private industry and by State government institutions were copies of approved rate and service tariffs and the utility company service agreement form. Auditors will accept this documentation as sufficient support for checks drawn in payment of utility bills.

The Commission on Government Procurement in its Recommendation 18 stated that Federal procurement should --

"Encourage procuring activities, when it is deemed in the best interest of the Government, to purchase supplies or services from public utilities by accepting the commercial forms and provisions that are used in the utilities' sales to industry and the general public, provided that the service contract provisions are not in violation of public law."

There is a periodic requirement to review tariff schedules to assure that the most advantageous rate or rate combination is being used. A consulting service for agency users would be helpful in this review.

The payment of utility bills involves a phenomenon endemic to public utilities - the need for bill-payment cash flow to finance continuing operations. Utility companies are financed by their customer payments to furnish working capital.

This need for cash flow has resulted in short payment times for utility bills -- 10, 15, 20, or 25 days are common. More recently, State commissions have approved late-payment charges for customers who are tardy in making payments. These are in the order of 3% or 3-1/2% for a first month and additional amounts up to 5% per month, or 1-1/2% per month with no limitation on the interest amounts on unpaid balances. Also, State commissions permit the cessation of service for chronic late-payment or nonpayment of bills (This has happened to Federal user agencies).

Some Federal user agencies incur late charges on their utility bills. Late-payment charges are paid largely as a result of not really understanding the nature of utility bills and not having a system to accommodate them. The Department of Agriculture handles utility bills from over 4,000 points across the United States at their National Finance Center in New Orleans. They have averaged less than four days from receipt to final action. U.S. Postal Service bills are paid on time.

Precise data on Federal late-payment charges are not available, but from various sources including sample studies under way in several agencies it appears likely that obligations of \$7 to \$10 million per year are now being accrued by Federal agencies. Much of this can be avoided, as demonstrated by those agencies who have developed systems to cope with it.

Load-management systems are being used in many areas of the United States for both residential and commercial-building energy load control. Home air-conditioners and hot-water heaters are equipped with remote activated switches in Georgia, Michigan and Ohio. The Georgia Building Authority is installing a computer controlled load-management system for the Georgia State Capital Building complex. GSA has several test installations in various parts of the United States.

This concept of peak-demand reduction through load-management - "peak shaving" - is a very significant technique that merits strong emphasis. The savings are attractive and can be widely achieved.

Public utility service rates are established after hearings and presentations before State and Federal Regulatory Commissions. Utility companies and utility users present cost-of-service or rate-of-return information with economic, engineering, accounting, or financial data relating to the utility services provided.

Many States have a People's Utility Counsel to represent residential and non-commercial users. Representatives of the Federal Government sometimes appear at such rate hearings and proceedings, either as observers, or as intervenors representing the Federal Government as a large user. As a general rule, any one with an interest may be an intervenor in such hearings.

The effectiveness of GSA and other Federal Government participants in regulatory intervention cases appears to be mixed. Performance ranges from the GSA appearance in the Arkansas hearings on automatic indexing for utility costs (the proposal was denied, but whether it was achieved by reason of the GSA intervention is not certain) to recent hearings before the Florida commission in which two sets of Federal Government witnesses presented diametrically opposite views. For the most part, it appears that participation is limited to observing or questioning expert witnesses. GSA has made full-scale rate-of-return presentations at past hearings.

### III. CRITERIA FOR IMPROVEMENT

- o Improved Federal management practices to reduce costs of utility services.

### IV. PROCESS IMPROVEMENTS

To enhance the public utility management function GSA should expand the existing public utilities management activity with a new charter to develop policies, procedures, and management systems. There is a need for the Administrator to work closely with industry/Government experts to identify various aspects of public utility management, organize a program of work, and provide an ongoing reference for forward progress.

Agencies should assure that public utility bills are paid within stated payment periods on a schedule which is most

advantageous to the Government. There may be need to revise existing systems or establish new ones to provide for paying utility bills prior to making adjustments.

Agencies should make post-payment audits of utility bills. This is a new function that would parallel the present post-audit function for transportation bills. Review would cover the tariff schedule used, special rates, and the like.

GSA should seek better rates to reduce total cost of utilities. The Federal Government as a large user requires a continuing block of energy from many utilities that could warrant a base block rate lower than other rates by virtue of economies of size.

Agencies should use systems that reduce peak-loads. The peak-demand for any given instant that is greater than at any other period in the year will establish the demand rate for the next annual period. There are several techniques for managing (controlling) and reducing this peak demand. These controls also may reduce the total annual load and cost.

GSA should develop recommendations to Congress to improve the method for Government utility contracting. The Commission on Federal Procurement recommended Federal contracting for public utility services should be reserved for rare, exceptional cases, and commercial forms and procedures should be used to the greatest extent possible.

Expected Benefits:

Reduced peak-demand costs through load-management and other conservation programs	\$15 - 16 million
Reduced total costs through management -- improvements such as rates or tariffs (cost-of-service cases)	10 - 14 million
Paying utility bills on a scheduled basis	<u>7 - 10 million</u>
Total Annual Savings	\$32 - 40 million

ISSUE NO. S-10: COOPERATIVE SUPPORT SERVICES

I. INTRODUCTION

This is an assessment of the potential for delivering certain administrative services more efficiently and at reduced cost. These services will be called "cooperative support services". It replaces the former title "common services" as it more accurately describes the intent and nature of the concept.

Two cooperative support service concepts are discussed in this study: (1) central administrative support services and facilities provided to agencies in a common building/complex in lieu of each agency providing the same services or facilities for its own use; and, (2) centralized services provided on a nation-wide basis to smaller agencies with inadequate resources to provide the same services individually.

The study included examination of applicable laws, regulations, previous studies and correspondence; questionnaires to 17 Federal cabinet and major independent agencies; visits/interviews with small Federal agencies and State government organizations; and evaluation of the solicited views of trade associations, professional groups, other state and local government organizations and private citizens.

II. BACKGROUND/CURRENT SITUATION

The Bureau of the Budget, now OMB, on August 28, 1964 published Circular No. A-68, "Establishment of central supporting service facilities in headquarters and field office locations". The Federal Property Management Regulations (FPMR), Part 101-5, "Centralized Services in Federal Buildings", implemented Circular A-68.

Although Circular No. A-68 was the initial movement by the Federal government towards centralized service centers, the real push did not come until 1971 when GSA's Office of Management Services established a pilot project at the Arcade Plaza Building in Seattle, Washington.

The Seattle Federal Regional Council was utilized to provide the needed framework. Seattle seemed an ideal site to establish the pilot "cooperative support services" project because the Arcade Plaza Building housed the five FRC charter agencies; the Department of Health, Education, and Welfare (DHEW); the Department of Housing and Urban Development (DHUD), the Department of Labor (DOL), the Department of Transportation (DOT), and the Office of Economic Opportunity (OEO). Following two years of planning the project became operational in

1971 with six initial services (mail and messenger; procurement; receiving and shipping; laboring services; self-service supply room; and library) being provided to a population of 975. It was estimated that the centralization of these services would result in a 25% reduction in costs.

An evaluation of the pilot project was conducted in 1972 by GSA in cooperation with OMB. This evaluation concluded that the pilot project was efficient, economical, and provided a high level of customer satisfaction. The evaluation team recommended that the Arcade Plaza arrangement be made permanent and the concept be extended to all locations where feasible.

In early 1973, OMB Circular No. A-68 was cancelled when centralized support services and other government-wide functions were transferred to GSA. Subsequently, GSA issued Federal Management Circular (FMC) 73-4, Central Support Services. Within FSS the responsibility was levied on the Office of Customer Service and Support, which intended to establish a Common Services Branch, but never pursued it when application of the program was not supported outside of the Seattle project.

In 1975, only three of the original five participants remained in the Seattle pilot project, i.e., DHEW, DHUD, and CSA (formerly OEO). A new review of the project was requested by the Working Group on Administration, composed of representatives of the three remaining agencies, in May 1975.

The National Archives and Records Service (NARS) of GSA conducted the study and recommended common services should continue in its present form, at least in the short run. Ultimately, the transfer of DOL and DOT out of the Arcade Plaza did lead to the discontinuance of common services except for library services which may also be terminated due to funding cutbacks in FY 79.

The current thinking of those who participated in the Seattle experiment is that cooperative support services would work effectively and economically on a localized basis provided that understanding and support of cooperative support services in philosophy and resources exist at all levels in headquarters and the field.

GSA tried to initiate agreements at new Federal installations in Honolulu, San Diego, and Fort Worth. However, the resistance encountered in trying to work out a means of obtaining manpower ceilings for the consolidated services was never overcome and all new initiatives were dropped.

Also reviewed was the Kluczynski Building in Chicago, a large Federal building occupied by several Federal agencies. The intent of this review of the delivery of administrative services was to determine if duplication existed in 23 selected types of services. It was concluded that duplication did exist and a feasibility study would be warranted.

The potential for a national approach to the delivery of certain kinds of administrative services to smaller agencies was examined. The model chosen for study was the USDA's consolidated payment center in New Orleans. In 1970, the USDA estimated that by consolidating the processing of payment vouchers a reduction of 473 man-years of effort and \$3,845,000 in total costs could be realized. The National Finance Center was fully implemented in 1977 with the addition of nine more systems. Projected savings for 1977 with the total system operational is \$4,345,630.

Using the USDA voucher processing feasibility study format from 1970, statistics were collected for the same activity in ACTION, FCC, ICC, NSF, and TVA. The results show that approximately 236 man-years are being devoted to voucher processing. Although no firm conclusions about efficiency of operations can be derived from this limited statistical sampling, the figures do indicate that duplicative voucher processing systems exist and that there is considerable volume in smaller Federal organizations. This could be analogous to what existed in the USDA prior to establishment of the National Payment Center.

Agency responses to the ASRP inquiries indicate that they generally agree with the theory of economy that cooperative support services projects, but there is great disparity in their views about what services should be included/excluded and the advantages/disadvantages involved.

A recent example of centralization of administrative services is the establishment of a Office of Administration in the Executive Office of the President (EOP). The Office of Administration consolidated services previously being supplied from many different sources with a wide variation in the quality and completeness of services. Services included were: personnel, accounting, mail, library facilities, computer operations, messengers, payroll, etc. Previous fragmentation of these services produced: numerous service duplications; inconsistent distribution of services; excess capacity in some units and deficiencies in others; missed opportunities for economies of scale; and lack of cost control.

Three of the advantages expected from the establishment of the Office of Administration were: estimated savings of approximately \$1.1 million and 40 positions; an administrative base on which to develop service; a management focus for accountability, responsibility and monitoring of administrative services in EOP.

Accounting, the first service fully centralized in the Office of Administration, is meeting with great success in terms of increased customer satisfaction, improved management information and more expeditious service.

### III. CRITERIA FOR IMPROVEMENT

- o Eliminate duplicative costs for the delivery of support services.
- o Improve the delivery of support services.
- o Identify actual costs of support services.
- o Upgrade the efficiency and quality of support services required by non-departmental agencies.
- o Reduce excess capacity and fill deficiencies where they exist.

### IV. PROCESS IMPROVEMENTS

A. Have GSA, with the firm support of OMB and Heads of Departments and Agencies vigorously pursue the application of cooperative support services on a local basis in buildings or complexes where large multi-agency populations exist. This effort should be accomplished through full and complete coordination and cooperation with the Federal Executive Boards and Federal Regional Councils.

B. Have GSA, with the firm support of OMB, and the necessary resources from appropriate agencies, investigate the feasibility of establishing cooperative support service agreements on a National basis for non-departmental agencies. This alternative would entail an in-depth feasibility study for selected services such as payroll, voucher processing, property accounting, etc.

C. Revise the FPMR, Part 101-5 to reflect the local and national basis concept of cooperative support services, and specify in detail the accomplishment of feasibility studies, the roles of the Federal Executive Boards (FEB's), the Federal Regional Councils (FRC's), OMB and the Departments and Agencies.

D. Establish flexible cooperative support service agreements, which permit addition of new services, and elimination of services which cease to be cost-efficient.

E. Provide for annual reviews of all cooperative support service agreements.

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ADMINISTRATIVE SERVICES REORGANIZATION PROJECT  
SUPPLY AND SUPPORT SERVICES TASK FORCE  
REGULATORY AND ADVISORY TASK TEAM

EXECUTIVE SUMMARY

BACKGROUND

The Federal Property and Administrative Services Act of 1949 assumed that the General Services Administration (GSA) would exercise a Government-wide leadership role in the delivery of administrative services. To carry out its mission, GSA has issued guidance to agencies in the form of Federal Property Management Regulations (FPMR), Federal Travel Regulations (FTR), and Federal Procurement Regulations (FPR). In a more service-oriented view, GSA provides assistance to agencies by offering training programs and conducting consultant-type advisory studies.

The study involved extensive interviews with GSA and customer agency personnel, interviews with officials of large corporations and state governments, analysis of questionnaires, and review of existing statutes, GSA and agency regulations.

ISSUES

The adequacy of three principal activities were addressed by the Task Team:

- o GSA regulatory activities
- o Interagency training
- o Advisory services to agencies

FINDINGS AND ALTERNATIVES

GSA REGULATORY ACTIVITIES

With respect to the FPMR and the FTR, there is no consistent institutionalized system for obtaining customer participation in the development of regulatory material. There is evidence of overemphasis on intra-GSA coverage versus inter-agency guidance. In varying degrees, required changes to regulations are not timely, language is overly complex, implementation of changes by the Federal establishment is costly, and there is no adequate system for either agency feedback or determining the level of agency compliance.

Organizational Alternatives. The structure of GSA has inhibited its ability to present a strong, coherent and service-oriented regulatory image to the Federal agencies it was created to serve. Three alternatives were considered:

- o Centralize development and control of regulations on the staff of the GSA Administrator.
- o Centralize coordination and monitoring of regulations on the staff of the GSA Administrator.
- o Strengthen staff of each GSA service to develop and control regulations.

Process Improvements. GSA should make the following improvements:

- o Increase agency participation in regulatory development and feedback.
- o Establish an improved compliance system.
- o Simplify regulatory language.
- o Write regulations which minimize the need for duplicative agency implementation.

#### INTERAGENCY TRAINING

Training and motivation of personnel are an integral element of administrative services. The quality and quantity of training provided to administrative services personnel varies by GSA Service. Moreover, some duplication of training effort between the Civil Service Commission and GSA requires resolution. Department of Defense training courses and the Federal Acquisition Institute are excellent models to emulate in establishing training and career development programs for administrative services personnel at all grade levels.

Alternatives. The fragmented approach to training within GSA lends itself to the following options to improve service delivery:

- o Consolidate administrative services training effort in GSA on the staff of the Administrator.
- o Consolidate administrative services training effort in the Civil Service Commission.
- o Continue current fragmented approach and work on product improvement.
- o Contract-out training.

Process Improvements. Initiate action within GSA and working with other agencies to:

- o Initiate a Government-wide career development program for administrative services personnel.
- o Establish a system to receive customer agency input.
- o Insure strong ties between training and program operations.
- o Improve training evaluation.

#### ADVISORY SERVICES TO AGENCIES

Based on customer agency response, there is a place in the GSA for an institutional group of high-quality consultants. The current approach to providing this type of service varies considerably among the GSA Services.

#### Organizational Alternatives.

- o Establish an organization on the Administrator's staff to plan, control and monitor advisory services.
- o Establish an organization within each GSA Service to plan, control, and monitor advisory services.

Process Improvements. Initiate action within GSA and working with other agencies to:

- o Conduct market surveys to pinpoint customer demand.
- o Establish a customer feed-back system.
- o Make program fully reimbursable and emphasize quality performance.
- o Avoid the audit image in providing advisory services.