
NATIONAL RECONNAISSANCE OFFICE

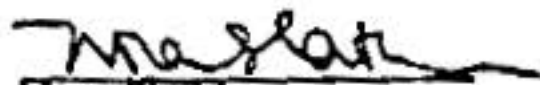
COLLOCATION CONSTRUCTION

PROJECT

**JOINT DOD AND CIA
REVIEW REPORT**

November 1994

Co-Chairs:


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John R. Byerly

*National Reconnaissance Office
Collocation Construction Project
Review Report*

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EXECUTIVE SUMMARY

INTRODUCTION

The Joint Review Team was formed by the Director of Central Intelligence and the Deputy Secretary of Defense to review the history of the National Reconnaissance Office (NRO) collocation construction project, now being built in west Fairfax County, Virginia, after questions were raised concerning the cost, size and other aspects of the project by the Senate Select Committee on Intelligence (SSCI). The team reviewed the project's history; examined the adequacy of the information provided to the Congress; assessed program management and oversight; determined the reasonableness of construction costs and the efficiency of facilities utilization; and considered ways to complete the project in the most cost-effective manner.

Assistant Secretary of the Navy Nora Slatkin and Central Intelligence Agency Principal Deputy General Counsel John R. Byerly jointly chaired the team.

INFORMATION PROVIDED TO CONGRESS

SUMMARY OF FINDINGS

- The Joint Review Team found no intent to mislead Congress.
- The Intelligence Oversight Committees approved the reorganization of the NRO, specifically authorizing \$30 million in FY1990 funds for initial interim collocation. They also approved the purchase of property in Fairfax County, Virginia, and the startup of building construction.
- The NRO failed to follow Intelligence Community budgeting guidelines, applicable to all the intelligence agencies, that would have caused the project to be presented as a "New Initiative." Requesting funds only in the NRO "Base" budget left unclear the total project costs.
- In response to specific congressional requests, the NRO provided cost data on the project. But, these data were not presented in a consistent fashion and did not include a level of detail comparable to submissions for military construction or intelligence community construction.
- The NRO was responsive to congressional requests for additional information, providing details of the plan to Committee staffs — e.g., site selection, overall facilities design and commercial cover to protect the NRO's classified status.

- The primary burden for presenting budgetary requests in a clear, meaningful and useful form must rest with the Executive Branch.

RECOMMENDATIONS CONCERNING CONGRESSIONAL REPORTING

- The NRO should work with the Intelligence Oversight and Appropriations Committees and with the DCI's Community Management Staff to ensure that its budget submissions meet congressional needs. Efforts to achieve this should include but not necessarily be limited to:
 - Inclusion of a land and construction section in the Congressional Budget Justification Book (CJB) that itemizes facilities-related projects, providing the name of the facility, the location, the type of project, the requirement and the total funding projection in a form that is consistent with that used by other elements of the Intelligence Community;
 - Identifying significant improvements in infrastructure as "New Initiatives" rather than allowing them to be subsumed in the infrastructure base; and
 - Establishing an understanding regarding the sharing of answers to each committee's questions.

PROJECT MANAGEMENT AND OVERSIGHT

SUMMARY OF FINDINGS

- During the period in question, the Secretary of Defense, the Director of Central Intelligence and the Director of the NRO were focused on achieving the reorganization and collocation of the NRO as quickly as possible, and were not as focused on the requirements for building the facilities to house the organization.
- From the outset, the Westfields Project lacked any independent review of its basic requirements, resulting in a facility larger than required for the tenant organization. Basic assumptions were not effectively validated or challenged.

RECOMMENDATIONS CONCERNING OVERSIGHT

- For major infrastructure projects in the future, the Director of Central Intelligence and Deputy Secretary of Defense should require the review and validation of project requirements from the outset and at each major milestone by a review group established for the purpose.

CONSTRUCTION COSTS

SUMMARY OF FINDINGS

- The construction costs per square foot are reasonable, based on comparable military and commercial facilities.

FACILITIES UTILIZATION

SUMMARY OF FINDINGS

- Excess space was found in the NRO facility in areas such as large office bays and conference rooms.
- The NRO projects that it will house 2,900 employees and contractor personnel in the facility. Consistent with General Services Administration (GSA) guidelines, there is room for at least 500 and as many as 1,000 additional staff. Significant savings are possible by improving the utilization of the facility.

RECOMMENDATIONS CONCERNING UTILIZATION

- The Joint Review Team believes that other Intelligence Community offices with a similar need for security should be housed in the facility. This can be accomplished by converting large office bays, conference rooms and other office support areas into offices. The Director of Central Intelligence and Deputy Secretary of Defense should allocate excess space to non-NRO personnel and identify the appropriate tenants.
- The Director of Central Intelligence and Deputy Secretary of Defense should examine current construction plans and lease costs of other elements of the Intelligence Community to determine whether use of the additional property on the Westfields parcel is warranted.

CONTRACTORS HOUSED IN NRO FACILITIES

SUMMARY OF FINDINGS

- Numerous onsite contractors have served the NRO in the past, and will continue to do so after occupancy of the new facilities.
- The Defense Contract Audit Agency determined that overhead rates have been properly adjusted for space and other occupancy benefits provided to contractors who utilize NRO facilities.

RECOMMENDATIONS CONCERNING ONSITE CONTRACTORS

- The Director of the NRO should review the contracts and responsibilities of contractors housed in NRO facilities to ensure compliance with Part 37 of the Federal Acquisition Regulation.

POTENTIAL COST SAVINGS

SUMMARY OF FINDINGS

- In addition to savings from more efficient utilization of building space, there is a potential for savings in taxes, furniture and support equipment and communications-related items.

RECOMMENDATIONS CONCERNING SAVINGS

- Since commercial cover is no longer required, the NRO should: (1) cease payment of sales taxes to the extent possible under the Federal Acquisition Regulation; (2) ensure that there is no future liability for real estate taxes, either by having title to Westfields transferred from Rockwell to the U. S. Government or by working out alternative arrangements with local officials; and (3) obtain the refund of any real estate taxes to which the U. S. Government is entitled.
- The NRO should reduce its budget for furniture and support equipment by at least \$8 million.
- The Director of the NRO should conduct a review before expending funds for communications-related items.

*NATIONAL RECONNAISSANCE OFFICE
COLLOCATION CONSTRUCTION PROJECT
REVIEW REPORT*

L INTRODUCTION

The Joint Review Team was chartered on August 8, 1994, by the Director of Central Intelligence and the Deputy Secretary of Defense to review the history of the National Reconnaissance Office (NRO) construction project at the Westfields International Corporate Center in Fairfax County, Virginia. The team was established in light of questions raised about the project by the Senate Select Committee on Intelligence. The team's focus was to review the project's history; to examine the adequacy of the information provided to the Congress; to assess the areas of program management and oversight; to determine and assess the total costs of the collocation construction project and the efficiency of facilities utilization; and to provide recommendations to ensure the project is completed in the most cost-effective manner.

Assistant Secretary of the Navy Nora Slatkin and Central Intelligence Agency Principal Deputy General Counsel John R. Byerly were designated jointly to chair the team, which included representatives from the three Military Departments and the Central Intelligence Agency. A list of the members is at Annex A.

In its review, the team examined extensive documentation relevant to the project, interviewed a number of individuals and toured the construction site. The Joint Review Team was briefed by the staff of the NRO and conducted several meetings with NRO management, the General Services Administration, staff of Congressional Oversight Committees, the Intelligence Community staff and the CIA's Comptroller. The review team had access to all relevant persons and documents and the full cooperation of the NRO.

HISTORY

The NRO is a joint organization made up of personnel from the Intelligence Community and the Department of Defense, and is responsible for the research, development, acquisition and operation of satellite and aircraft based intelligence gathering systems. The NRO was established in the early 1960s by the Secretary of Defense and the Director of Central Intelligence and has operated in a strictly classified environment. Prior to 1992, the very existence of the organization was classified.

For many years, the elements of the Central Intelligence Agency and the Department of Defense operated within the NRO as virtually three separate components. Each of the programs had its own manager, who was responsible to the Director of the NRO. Each of the programs was geographically separate from the others. The Air Force program was located on the west coast. The CIA program and the Navy program were located separately in the National Capital Region.

In the mid-1980s, NRO management became increasingly concerned with inefficiencies attributable to the separate locations and program structure. There was a growing belief by NRO management, the Intelligence Community and the Intelligence Oversight Committees that the NRO should be collocated and possibly restructured to improve its operation. At a minimum, it was agreed that a central planning and analysis group would be established and be responsible for technical and analytic functions.

In 1988, the Deputy Director of the NRO asked the NRO's Director of Management Services and Operations to develop a preliminary plan for the collocation of the three programs. The plan envisioned the acquisition of temporary space to house the newly collocated components, followed by the acquisition of space to house the organization permanently. The plan was based on the collocation of at least 1,200 NRO personnel and contractor support staff with an understanding that the plan needed to be flexible enough to collocate a total of approximately 3,000 personnel.

During the summer of 1988, Mr. Edward C. Aldridge, Jr., then Director of the NRO, was briefed on the results of the preliminary planning. In November and December 1988, he advised the Chairmen of the Congressional Oversight Committees and senior members of the congressional staffs of the NRO management goal to restructure the NRO and to collocate its component parts in the Washington, D.C. area.

With the agreement of the Intelligence Oversight Committees, a more detailed study (referred to as the Geiger-Kelly study) of the NRO restructure and collocation was started in February 1989. The Geiger-Kelly study, completed in July 1989, supported total collocation, and recommended a three-phase plan for temporary collocation of limited personnel, interim collocation of additional personnel pending construction of permanent space and ending with permanent collocation of all NRO personnel. The study surveyed available property within the Washington area. Existing government buildings were ruled out because of size requirements and security problems. The study identified two preferred locations, one of which was the Westfields site, as acceptable for the permanent facility.

The NRO restructure/collocation plan recommended by the Geiger-Kelly study was not universally accepted; reservations were expressed by various parties in the Intelligence Community, the Armed Services and Industry. On July 3, 1989, Defense Secretary Richard B. Cheney and Director of Central Intelligence William H. Webster advised the Intelligence Oversight Committees of the status of the NRO restructure plans, stating that further study was required. At the request of the Administration, however, the Congress approved \$30 million in FY 1990 funds for the interim facility to support organizational changes while

permanent facilities issues were studied.

On February 26, 1990, Defense Secretary Cheney and Director Webster forwarded a report by the NRO Director, Mr. Martin C. Faga, to the Intelligence Oversight Committees and Appropriations Committees and stated that they, Cheney and Webster, intended to proceed with collocation of the headquarters and central support elements while preserving the option for total collocation if required. This further study did not identify factors supporting alternatives to the purchase of new land, such as use of government property or GSA leased facilities.

On September 17, 1990, Mr. Faga notified the committees of the NRO's intent to acquire the property and facilities adequate to provide permanent facilities for NRO activities previously located in the temporary and interim facilities and an allowance for additional collocation up to and including all of the NRO and some support contractors. At that point the NRO planned two five-story buildings, referred to as "towers," to house 1,200 to 1,300 people. On November 15, 1990, a tract of approximately 68 acres in the Westfields Development in Fairfax County, Virginia was purchased by the Rockwell International Corporation for the NRO. The tract was large enough to permit not only full collocation of the NRO at Westfields, but also the construction of additional office space for contractors or other U.S. agencies, should the need arise. Rockwell International and a subsidiary provided a covert procurement mechanism for the then classified NRO, procured and managed interim and temporary facilities for the NRO and managed construction of the new facilities.

In the spring and summer of 1991, facilities project managers received updated relocation planning input from the three NRO programs. The refined numbers to be housed were estimated to be 1,600 employees and contractors. The NRO Director approved construction of the third tower.

In April 1992, the Fuhrman Panel, a task force established by the DCI, recommended total collocation and reorganization of the NRO, as well as declassification of certain basic information about the organization. After approval of the key recommendations by the DCI, the Secretary of Defense and the President, the NRO set plans for construction of a fourth tower at Westfields to house the approximately 3,000 employees and contractor personnel envisioned in total collocation. At present, occupancy of the Westfields facilities is scheduled to begin in early 1996.

II. INFORMATION PROVIDED TO CONGRESS

The Joint Review Team examined the information provided to the Congress concerning the collocation of the NRO and, in particular, the construction of the NRO buildings at Westfields. The objective was threefold: (1) determine the facts; (2) judge the adequacy of the information supplied to the Congress in the past; and (3) assess whether changes are appropriate for the future. The team prepared a chronological narrative of events from an exhaustive review of available documentary records, including relevant Congressional Budget Justification Books (CBJBs) for the National Foreign Intelligence Program (NFIP), congressional legislation and reports, Executive Branch correspondence with the Congress and NRO briefing materials and responses to congressional committee questions over a six year period. The team also reviewed extensive background materials provided by the NRO, the Intelligence Community Management Staff (CMS), and the CIA Comptroller. In addition, the team met with NRO personnel, with past and present congressional committee staff members and with appropriate senior officials in the Intelligence Community and Department of Defense. This effort formed the basis for the conclusions in the following paragraphs.

The team found no intent on the part of the NRO to mislead the Congress about the collocation effort or the construction of the Westfields buildings. On the other hand, the NRO failed to provide to the Congress clear and consistent cost data that would have enabled the Congress to fulfill its oversight role more effectively.

The NRO was responsive to congressional requests for information on the project. Moreover, much of the initial impetus for the collocation and restructuring of the NRO came from the Intelligence Oversight Committees, and the NRO believed that it had congressional support. In particular, the review team found that the Intelligence Oversight Committees were apprised of the NRO's plans:

- to lease a 40,000 square foot temporary facility in the Washington, D.C. area in early 1989;
- to lease a building in the Washington, D.C. area a year later for the interim facility (using part of the \$30 million in FY 1990 funds expressly authorized and appropriated for collocation purposes);
- to build a permanent facility (rather than use an existing structure) on private land under commercial cover (rather than use U.S. Government property and construction management);
- to purchase some 68 acres of land at Westfields in FY 1991 for approximately \$24 million;
- to begin construction at Westfields, in 1991, of a facility for partial NRO collocation while "protecting the option" for full collocation; and

- to expand the construction plan to include a fourth office tower to permit full collocation (Congress approved the reallocation of \$22 million in FY 1993 funds for this purpose).

The Executive Branch and the Congress share responsibility for ensuring effective budget presentations and exchange of information. However, given the large amount of data and the relative size of staffs, the primary burden for presenting budgetary requests in a clear, meaningful and useful form must rest with the Executive Branch.

The NRO failed to adhere to Intelligence Community budgeting guidelines which, had they been followed, would have resulted in the inclusion of adequate cost data in the annual Congressional Budget Justification Books. (An example of a NRO budget justification excerpt is at Annex B.) These budgeting guidelines are set out in the Intelligence Community's "Capabilities Programming and Budgeting Manual." The manual establishes different budget display requirements for three categories of items: Base, New Initiatives and Ongoing Initiatives. "Base" is defined to include "minor replacement procurement ... and normal logistic procurement needed to sustain capabilities from one year to the next." However, "[a]ll costs associated with capabilities improvements ... are specifically excluded from the Base." The discussion of "New Initiatives" includes specific reference to "site preparation ... and any supporting facilities such as additional power, air conditioning, communications, ADP, etc." as "costs that must be included and explained."

Consistent with these definitions, the NRO should have presented its FY 1991 request for funds to support collocation as a discrete "New Initiative." This would have resulted in the NRO's providing to the Congress specific line items for the collocation initiative and new buildings in a way that mirrored construction budgeting practices in other parts of the Government. For example, with respect to military construction projects over a set dollar figure, the Congress is provided a detailed breakout of costs but also authorizes on a project-specific basis. Similarly, since 1990, all intelligence agencies have been directed to provide prior notification of all leases over \$500,000 annually or 20,000 square feet. Since 1992, the CIA has been directed to obtain congressional approval for all real property acquisitions over \$500,000.

Funds requested for NRO collocation were displayed in the budget justification books as part of the National Reconnaissance Program "Base" and were subsumed within significantly larger budget amalgamations of NRO infrastructure and operating support costs. None of the documents provided a dollar figure specifying the total project costs of the NRO collocation effort or the Westfields construction project. The narrative justifications in the budget documents from FY 1991 to the present summarized the status of past and future NRO collocation activities but were insufficient for the congressional Oversight Committees to understand the total costs of the collocation project as it evolved.

Other documents provided to the Committee staffs, in response to questions for the record and briefing requests, provided cost data of various types but did not offer a clear and consistent picture of total project costs.

The NRO informed the review team that responses to questions for the record of a specific nature from one of the oversight committees are normally provided only to that committee. Responses to more general questions may be provided to both committees.

The success of any project is assessed by balancing cost, schedule and performance. The Congress needs information on each of these three elements. As shown in Table I, total cost data on the Westfields project can be presented in a clear and useful manner, without excessive detail. Unfortunately, this kind of information was not provided in the Congressional Budget Justification Books.

*Summary of Total Costs – Westfields Project
(in millions)*

Briefing given to SSCI in May 1994 *	\$347.0		
Revised estimate in August 1994	\$310.0		
Estimate at Completion (EAC):	\$301.8		
- Land		\$24.0	
- Design & Engineering		\$20.8	
- Direct Construction Cost		\$123.1	
- Construction Support		\$23.9	
- Activation:		\$50.0	
- ADP/Communications			\$35.6
- Furniture			\$9.4
- Support Equipment			\$5.0

* Note: The briefing displays were constructed because the annual budget submissions did not contain a total cost estimate of the complete project.

Table 1 – Summary of Total Costs

Recommendation: The NRO should work with the Intelligence Oversight and Appropriations Committees and with the DCI's Community Management Staff to ensure that its budget submissions meet congressional needs. Efforts to achieve this should include but not necessarily be limited to:

- Inclusion of a land and construction section in the Congressional Budget Justification Book that itemizes facilities-related projects, providing the

name of the facility, the location, the type of project, the requirement and the total funding projection in a form that is consistent with that used by other elements of the Intelligence Community;

- Listing of significant improvements in infrastructure as "New Initiatives" rather than allowing them to be subsumed in the infrastructure base; and
- Establishing an understanding regarding the sharing of answers to each committee's questions.

III. PROJECT MANAGEMENT AND OVERSIGHT

The NRO's management of the collocation process began in the spring of 1988, when Deputy Director Jimmie D. Hill tasked the NRO Director for Management Services and Operations, Mr. Roger Marsh, to develop a preliminary plan for accomplishing the collocation. This plan included a rough statement of the requirement and a survey of possible sites in northern Virginia.

In November 1988, when Director Aldridge decided to pursue NRO restructuring and collocation, facilities personnel within the NRO were assigned to plan the implementation. They provided support for the Geiger-Kelly study in 1989 and ultimately evolved into an integrated team that was responsible for all aspects of the planning, design, contracting and oversight of the facility construction effort. Program management oversight was the responsibility of a Board of Directors that consisted of the senior leadership of the NRO. The Board met periodically to review the project and conducted an on-site inspection in April 1990 prior to the purchase of the land.

This structure worked well in managing the cost of the construction project and was especially effective in streamlining the move from the planning stage to actual construction.

While construction management was good, the management and oversight of the requirements determination phase of the project were deficient, resulting in an oversized facility. The NRO planners were not rigorous in challenging and validating basic assumptions about space requirements.

Very early in the process, they concluded that full collocation of all of the NRO and some of the supporting contractors would require a facility of one million square feet to house approximately 3,000 people. The planners based that figure on submissions from each of the three NRO programs indicating projected requirements in a consolidated facility. The NRO staff told the review team that they were informed by OSA personnel that using 350 gross square feet per person was appropriate for planning purposes. However, the NRO staff could not provide any names or documents to support this. Thus, the decisions on sizing of the facility were based on initial assumptions that were not challenged.

The Westfields Project lacked any meaningful internal or an external review of its basic space requirements. The Director of the NRO did not validate those requirements in 1991 and 1992 when the decisions were made to expand the facilities, nor did the staffs supporting the Secretary of Defense or the Director of Central Intelligence. When those decisions were made, the Director of Central Intelligence and the Secretary of Defense were primarily concerned with reorganizing and refocusing the NRO and overcoming any residual resistance within the NRO elements to full collocation. In 1992, Mr. Faga directed a "quick look review" of construction standards by the NRO Inspector General, but the focus was on areas of eye-catching extravagance and did not examine the basic space requirements.

Recommendation: For major infrastructure projects in the future, the Director of Central Intelligence and the Deputy Secretary of Defense should require review and validation of project requirements from the outset and at each major milestone by a review group established for the purpose.

IV. CONSTRUCTION COSTS

The Joint Review Team examined the construction costs of the Westfields facilities. Although the facilities were designed and constructed as commercial office buildings in a commercial real estate area, the team concluded that the reasonableness of the construction costs could be properly assessed by conducting a cost comparison using a DoD parametric model.

DoD construction standards and the parametric model do not include such costs as land purchase, architectural and engineering design costs, security and certain other items. Accordingly, the comparison addressed only those NRO costs related to actual construction. The first step in the process -- to ensure accuracy -- was to validate the model by conducting a separate comparison with the recently completed Naval Intelligence Headquarters building in Suitland, Maryland. The second step was to compare the cost of the Westfields Project to the model. The NRO construction costs totalled \$183.1 million compared to \$179 million for the model DoD headquarters facility of similar design and construction. Based on the analysis, the review team concluded that the construction cost per square foot for the NRO facility is reasonable.

Following a briefing to the Senate Select Committee on Intelligence by the Co-chairs of the Joint Review Team, the Committee asked the team to provide comparative information for commercial land, construction and support costs.

A commercial real estate broker estimated that the current cost of commercially zoned land in western Fairfax County ranges from \$400,000 to \$450,000 per acre in the Route 28 corridor where the Westfields project is being constructed. The NRO's purchase of 68 acres for \$24 million in 1990 (or approximately \$353,000 per acre) is significantly cheaper than the cost of acquiring similar property today. Property in sections of Fairfax County closer to Washington, D.C. is more expensive: from \$435,000 to \$650,000 per acre in Herndon, and from \$870,000 to \$1,300,000 per acre in Tysons Corner.

Comparing the Westfields facility to other commercial buildings is complicated by the fact that each project is different and costs vary based upon the needs and desires of individual clients. The team did not have a commercial version of the parametric model that it used for military construction cost estimates. Consequently, cost data were obtained on two construction projects in Fairfax County that were considered appropriate for comparison.

Each of the two projects is about 30 percent complete and consists of an office building with approximately 400,000 gross square feet contracted under a build-to-suit arrangement. The information obtained was proprietary, and is summarized below to avoid disclosing the identity of the specific projects or the sponsors.

The first project consists of a six-story reinforced concrete building with a concrete facade and basic customer requirements for "general purpose office space." The total cost per

square foot for this facility (which includes land acquisition, site work, architectural and engineering design costs and core and shell construction, but not fit-up) is about \$105 - 110 per square foot. The second project is a five story facility with a more architecturally pleasing masonry facade and more stringent specifications similar to those in the NRO buildings (such as greater power capability, raised floor areas, higher floor load ratings, etc.). Total costs for this facility are about \$160 - 165 per square foot.

The team also obtained information from two architectural and engineering design firms to discuss the costs they would advise new clients to be prepared to spend if considering acquiring new facilities in western Fairfax County. The firms advised that there is no standard per square foot cost as the needs, space requirements and desires of individual clients differ. However, a basic "corporate headquarters" building would probably range between \$150 - 200 per square foot according to one firm, and \$380 - 200 in the opinion of the second firm.

Based upon these surveys, the NRO facility costs of \$153 per square foot, for land acquisition, site work, architectural and engineering design costs and core and shell construction, are reasonable and comparable to commercial facilities being constructed or planned for western Fairfax County.

In addition to the information above, the team also obtained data on land and construction costs in Crystal City, due to a suggestion made at the briefing of the SSCI. But, comparisons of land and construction costs in an urban area such as Crystal City, with the costs of the Westfields project, are inherently difficult and potentially misleading. There is a significant difference in zoning requirements, county and city ordinances and land acquisition costs between Crystal City and western Fairfax County. Crystal City property values reflect the ready access to transportation (National Airport, Metro, Virginia Railway Express and major highways) and major shopping centers, the availability of accommodation for both permanent residents and visitors and a panoramic view of the Potomac River and the Nation's Capital. In the Crystal City area, land costs are expressed in terms of a measure of gross constructed space, Floor Area Ratios (FAR), rather than acres. The most recent land acquisition (on top of a Metro station and adjacent to the Pentagon City Shopping Mall) was approximately \$40 million for a FAR of approximately one million square feet, or \$44.44 per occupiable square foot.

Comparable current data for site work, design and core and shell construction were obtained for a typical Crystal City building providing general purpose office space. In Crystal City, site work and the core and shell include parking facilities that are integral to the building. The building is an eleven-story structure, with poured-in-place concrete, pre-cast stone and an insulated glass exterior finish. It provides 360,000 square feet of occupiable space and associated underground parking. The current cost of the design, site work and core and shell is approximately \$32,109,000 or \$89.20 per square foot. Adding the prime real estate FAR cost of \$44.44 per square foot yields a total cost of \$133.64 per occupiable square foot.

V. FACILITIES UTILIZATION

Using GSA guidelines, the Joint Review Team examined the NRO's plans for allocating space within its planned facility. The NRO intends to house 2,900 people in the facility. The team found that the facility could house from approximately 3,400 to 3,900 people based on GSA norms and thus would be under-utilized when completed. The team believes that there is room for at least 500 and as many as 1,000 additional people in the four towers. See Tables 2 and 3 below for summaries of the planned allocation of space in the NRO facilities and the computation which supports housing additional personnel in them.

The NRO's average primary office space per person, 128 square feet, is in line with the GSA guideline of 125 square feet. The planned allocation for office support space, however, is excessive. The type of office support space under question includes the reception and bay areas, 117 conference rooms (in addition to the conference center complex), copy rooms, corridors and circulation space, file areas, supply storage rooms, libraries and similar administrative areas. Specifically, the NRO plans approximately 78 square feet per individual in support space versus the GSA range of approximately 28 to 50 square feet per person.

Space Utilization Summary using GSA Guidelines

ITEM	1 TOTAL CONSTRUCTED SPACE	2 TOTAL NON- ASSIGNABLE SPACE	3 TOTAL OCCUPIABLE SPACE	4 STORAGE & SPECIAL	5 OFFICE SPACE	6 OFFICE SPACE- PRIMARY	7 OFFICE SPACE- SUPPORT
OFFICE TOWERS	999,912 SF	338,183 SF	661,729 SF	21,273 SF	397,517 SF	376,997 SF	220,620 SF
CORE BLDG.	64,118 SF	32,717 SF	31,401 SF	20,638 SF	773 SF	0 SF	773 SF
POWER BLDG.	2,881 SF	2,311 SF	0 SF	0 SF	0 SF	0 SF	0 SF
GUARD HOUSE	434 SF	434 SF	0 SF	0 SF	0 SF	0 SF	0 SF
TOTAL	1,031,345 SF	398,214 SF	633,531 SF	21,911 SF	398,290 SF	376,997 SF	221,393 SF
SF / PERSON			218 SF/P	26 SF/P	136 SF/P	128 SF/P	78 SF/P

Note: SF/PERSON assumes occupancy by 2,900

COLUMN 1: Total constructed space (1,031 SF), reported to Congress

COLUMN 2: Total Non-assignable space -

- Outside main structure
- Building Support (Thickness of exterior walls, steps, NRO's "Core")
- Other (Credit Union, Central Conference Center, Health facilities, General lobby)

COLUMN 3: Total Occupiable space (Col 1 - Col 2 + Col 5)

COLUMN 4: Storage and Special space (Lab, graphics, training)

COLUMN 5: Total Office space (Col 3 - Col 4 + Col 7)

COLUMN 6: Primary Office space (Actual office areas)

COLUMN 7: Office Support space (Bay areas, file areas, corridors, conference/trng rooms, etc.)

Table 2 -- Space Utilization Summary Using GSA Guidelines

*Range of Total Personnel that Could be
Housed in the Westfields Facility*

	Current Design	Nationwide GSA Target	National Capital Region GSA Norm	GSA Maximum Justified
Square Ft/Person	206	153	163	175
No. of People	2,900	3,911	3,671	3,419

- Primary office space uses a standard of 125 square feet per person.
- Support space then is added using a percentage of the primary office space:
 - Nationwide GSA Target: 22%
 - National Capital Region GSA Norm: 30%
 - GSA Maximum Justified: 40%

Table 3 — Range of Total Personnel that Could be Housed in the Westfields Facility

The current GSA nationwide target for support space is approximately 28 square feet per person. According to the GSA's National Capital Region space planners, 30% for support space (or about 38 square feet per person) is the accepted norm for buildings in the Washington, D.C. area. The team was informed that GSA has authorized a 40% support space factor (or about 50 square feet per person) only in one case, and considers this the maximum amount that could reasonably be justified.

Applying the GSA guidelines for government agencies, the Westfields facility has a larger capacity than required for the collocated NRO work force. Therefore, the Joint Review Team believes that personnel from other Intelligence Community agencies with a similar need for security can be housed in the facility. That can be accomplished by converting large office bays, conference rooms and other support areas into offices.

In 1991, the NRO acquired a 68 acre tract of land at Westfields that was large enough not only to "protect the option" of ultimately housing 3,000 NRO employees and contractors in four office towers but also to permit the construction of two additional towers of similar size for other use. Among the factors weighed at the time were concerns about changing

zoning and environmental requirements; security concerns about the proposed construction of a motel on adjoining property; and the possibility that the additional property could be used to construct more office space, if needed.

Recommendation: The Director of Central Intelligence and the Deputy Secretary of Defense should decide how to allocate excess space to non-NRO personnel and identify the appropriate tenants.

Recommendation: The Director of Central Intelligence and the Deputy Secretary of Defense should examine current construction plans and lease costs of other elements of the Intelligence Community to determine whether use of the additional property on the Westfields parcel is warranted.

VI. CONTRACTORS HOUSED IN NRO FACILITIES

Questions were raised about the number and cost impact of contractor personnel who will be located in the NRO facility.

From the beginning of the planning for the collocation, contractor personnel were included in the number of people to be housed in the new facility. The ratio of contractor to Government personnel was relatively constant from the beginning of the collocation plans to the present. There is no single discrete unit of contractor personnel; contractors are used throughout the NRO in support of the programs and for support and engineering services. Currently, the NRO plans to utilize 1,022 contractor personnel in NRO spaces, approximately one third of the 2,908 total to be housed in NRO spaces. Thus, to date, a relatively large number of onsite contractors have served the NRO, and will most likely continue to do so.

The extent and proper role of contractor operational support and advisory assistance services is a concern throughout the Government; it is not unique to the NRO. Many factors affect the decision whether to use Government or contractor personnel to perform a particular function. One such factor is the extent of science and technology involved in the mission of the Government activity. Frequently, where the activity is involved with state-of-the-art equipment, as the NRO is, the requirements for scientific and technical personnel may not be met adequately by the Government personnel system. The Joint Review Team concluded that determining the precise number of contractors the NRO should use to meet mission requirements or collocate in its spaces was beyond the scope of its tasking.

Part 37 of the Federal Acquisition Regulation sets forth specific concerns regarding contracting for services. In the discussion of personal service contracting at Section 37.104, particular concerns are expressed when the contractor personnel are to work in Government space with Government personnel.

It has been asked, however, how the cost of the space occupied by the contractors is "recovered by the Government." The Defense Contract Audit Agency was asked to review the cost allocation for contractors occupying NRO space. The DCAA reported that contract overhead rates were properly adjusted for rent and other occupancy costs. A copy of DCAA's memorandum is at Annex C.

Recommendation: The Director of the NRO should review the contracts and responsibilities of contractors housed in NRO facilities to ensure compliance with Part 37 of the Federal Acquisition Regulation.

VII. IMPACT OF SECRECY

The Joint Review Team assessed the effects of classification on the process of congressional approval and the cost of the Westfields project. Pinpointing precise effects and costs associated solely with the Westfields project was a difficult task, because of the challenge of hypothesizing what might have been different if the Westfields project had been declassified earlier. The Joint Review Team believes, however, that the following conclusions are justified, although some are necessarily speculative.

First, the use of commercial contracts did not result in construction costs significantly above those predicted by the parametric model for comparable military construction projects. Second, there were some security-specific costs -- most notably the real estate taxes paid by Rockwell, permits and licenses, and insurance -- that would have been avoided had the building been constructed as a U. S. Government facility. Third, it is possible that overt U. S. Government construction would have been accompanied by an independent assessment of office space requirements, possibly resulting in a final facility with fewer square feet and a lower total price tag. Finally, if the requirement for the building had been declassified earlier, the decision to build at Westfields might have been affected by the fact that DoD property and facilities were becoming available in the National Capital Region through the Base Realignment and Closure process. Or, greater consideration might have been given to locating the facility on a military installation where other defense-related intelligence agencies are located, avoiding the cost of purchasing land.

VIII. POTENTIAL COST SAVINGS

In addition to the efficient utilization of building space, the Joint Review Team looked at other areas where potential cost savings might be realized. The following indicate cost savings considered a priority to review in the limited time remaining to achieve savings.

A. Taxes

The declassification of the Westfields project will permit the NRO to achieve savings of sales and property taxes. The U. S. Government is not required to pay state and local sales taxes on purchases it makes or property taxes on real estate to which it has title. Rockwell has held title to the Westfields property, paying to date approximately \$1.6 million in real estate taxes to Fairfax County with funds provided by the NRO. Prior to declassification of the Westfields project, Rockwell had appealed past property assessments, challenging the county's method of valuing property based on the costs paid to date for unfinished structures rather than on the fair market value at the time of assessment. NRO officials have now initiated discussions with Fairfax County officials to terminate all further payment of real estate taxes and are examining the legal issues affecting refunds of real estate taxes paid in the past. The NRO is also examining how it might change its procurement practices in the final stages of the project to minimize the payment of sales taxes, consistent with the Federal Acquisition Regulation.

B. Furniture and Support Equipment

The NRO's budget estimate contains \$50 million for "other activation costs." Included is \$9.4 million for furniture and \$5 million for "other support equipment." Those items envisioned the purchase of significant amounts of new furniture and equipment for the Westfields facility. The NRO expected that the \$5 million figure would serve to capture unexpected expenses that might arise in the future. At the request of the Joint Review Team, the NRO prepared a revised budget for each category to reflect maximum use of existing furniture and equipment. Purchases are to be limited to the needs of new personnel and personnel moving from the west coast, replacement of unusable furniture, plus a small replacement factor to account for breakage of existing property. The revised budgets show that furniture expenditures can be limited to \$5 million and expenditures for "other support equipment" to \$1.5 million.

C. Administrative Data Processing Systems/Communications Systems

Staff from the Office of the DoD Inspector General, who examined the NRO's plans for procuring ADP and communications systems at the Joint Review Team's request, believe that approximately \$6 million in the budget for communications-related items needs further review.

Recommendation: The NRO should: (1) cease payment of sales taxes to the extent possible under the Federal Acquisition Regulation; (2) ensure that there is no future liability for real estate taxes, either by having title to Westfields transferred from Rockwell to the U. S. Government or by working out alternative arrangements with local officials; and (3) obtain a refund of any real estate taxes to which the U. S. Government is entitled.

Recommendation: The NRO should reduce its budget for furniture and support equipment by at least \$8 million.

Recommendation: The Director of Central Intelligence and the Deputy Secretary of Defense should instruct the Director of the NRO to conduct a review before expending funds for communications-related items.

ANNEX A: JOINT REVIEW TEAM MEMBERS

Co-Chairs:

Nora Slatkin - Assistant Secretary of the Navy for Research, Development & Acquisition
(ASN(RD&A))

John R. Byerly - Principal Deputy General Counsel, CIA

Derek J. Vander Schaaf - Deputy Inspector General, DoD

Dennis H. Trosch - Deputy General Counsel for Acquisition & Logistics, DoD

Rear Admiral Walter Cantrell, USN - Commander, Space & Naval Warfare Systems
Command (SPAWAR)

Colonel Karsten H. Rothenberg, USAF - Office of the Civil Engineer of the Air Force,
Director of MILCON (AF/CEC)

Lieutenant Colonel Thomas Duffy, USA - Dept of the Army, Office of the Judge Advocate
General, Chief, Logistics & Contract Law

Virginia E. Durgin - Office of Logistics, CIA

Michael Kennedy - Office of the Comptroller, CIA

Executive Assistant:

Commander Deborah R. Stiltner, USN - Military Assistant to ASN(RD&A)

ANNEX B: CONGRESSIONAL BUDGET JUSTIFICATION BOOK EXCERPT

DIRECTOR OF CENTRAL INTELLIGENCE
NATIONAL RECONNAISSANCE PROGRAM

FY 1991 CONGRESSIONAL BUDGET JUSTIFICATION

Miscellaneous Procurement and Support

This element of the Mission Support expenditure center includes the facilities required in the NRO reorganization, airlift support, launch range communications, travel costs in support of NRO activities, and non-program-specific logistics support.

The NRO is using a phased incremental facility strategy as part of its overall restructure process. The facilities include a temporary, interim and permanent facility. The leased temporary facility provides office space for the initial phase of the reorganization. The leased interim facility will allow collocation of the NRO Headquarters and selected support functions. The NRO plans to acquire the permanent facility to accommodate all functions at the temporary and interim facilities and other NRO activities as directed by the DNRO. Financial figures in the Report on the NRO Restructure protect the option to acquire the land to support a total collocation and a building sized for less than total collocation. Personnel costs for facility support and centralizing security manpower requirements are also included in funding figures in the Restructure Report. This Amended FY 1991 budget includes funding that is less than that contained in the NRO Restructure Report. If the facilities plan contained in the NRO Restructure Report is approved, a reprogramming request will be submitted. The increase in miscellaneous procurement support is primarily due to the continuation of funding for the reorganization.

(Heading classified)

(Dollars in Thousands)

<u>Appropriation</u>	<u>Cost to Date</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>	<u>Cost to Complete</u>
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(Information classified)

ANNEX C: MEMO FROM DEFENSE CONTRACT AUDIT AGENCY

Copy of memorandum follows.



DEFENSE CONTRACT AUDIT AGENCY
CAMERON STATION
ALEXANDRIA, VA 22304-6178

28 October 1994

PLD 225.4.

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Contractor Employees Housed at Government Facilities

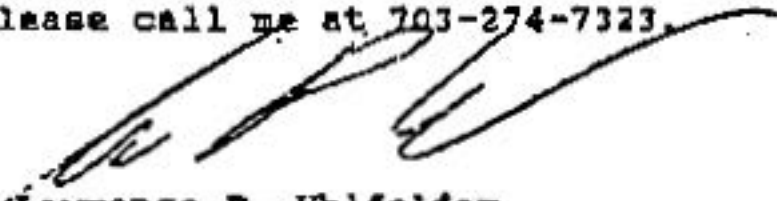
This is in response to your oral request pertaining to an inquiry from the United States Senate Select Committee on Intelligence, dated October 4, 1994, about the cost of space to be occupied by contractor personnel in a government building. The committee asked for clarification about the comment by the review team that "overhead rates . . . were adjusted correctly."

Space provided to these contractor employees is at government expense and is considered the same as government furnished property for contract costing purposes. Typically, a reduced overhead rate is applied to the direct labor of contractor employees stationed in government buildings. This reduced overhead rate (usually called the offsite or field rate) includes fringe benefits and supervision costs, but does not include rent and other occupancy costs. The full overhead rate, which would include rent along with other costs, should be applied only to labor performed at buildings owned or leased by the contractor.

DCAA Field Audit Offices (FAOs) routinely review contractor overhead cost pools to insure that costs are allocated in accordance with cost accounting standards when establishing indirect rates for forward pricing and final incurred cost submissions. In addition, the appropriate application of overhead rates to contracts is considered in individual proposal reviews, as well as incurred cost audits before final payment.

For the contractors on the list provided to us, we contacted the cognizant field audit offices and determined that the established offsite rates do not include rent and other occupancy costs.

If you have any questions please call me at 703-274-7323.



Lawrence P. Uhlfelder
Deputy Assistant Director
Policy and Plans