Client Enrichment Series – Q & A

Topic: GSA's Consolidation Fund Program
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Link to Series Information: www.gsa.gov/ces

1. Is there a minimum project size to apply for Consolidation Funding?
Answer: No, projects are rated based on their respective merits and response to program requirements.

2. Does my agency have to pay back the funds that we receive from the Consolidation Fund?
Answer: Yes, agencies are required to commit to and fund the agency portion of the project costs. Thepayback and schedule will be based on the GSA Pricing Desk Guide.

3. Where can I see an example of the Project Workbook that I would need to complete to submit my agency's project?
Answer: Please request a copy of the most recent project workbook from your respective regional GSA Consolidation POC. If you are unaware of your GSA Regional Consolidation POC please request it from Loaela Hammons at Loaela.hammons@gsa.gov or Clifford Pearson at clifford.pearson@gsa.gov.

4. How do I submit a project for consideration for Consolidation Funds?
Answer: You can submit a project workbook through your regional Consolidation POC (see question 3 above).

5. When are submissions due?
Answer: The Consolidation short list is typically due in late September/early October. Because of the continuing resolution we cannot confirm when the final short list will be due this year. Please look out for Consolidation "Road Shows" for more information coming soon.

6. How would my agency calculate "Lease Cost Avoidance?"
Answer:

Taxpayer Payback (avoidance) Calculation Details

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Taxpayer Payback (avoidance) = Total Project Costs/Annual Lease Cost Avoidance

GSA uses this calculation to account for the lease payments that will no longer be made to a lessor, and would therefore have left the taxpayer's control. By avoiding these lease costs, the ***taxpayer*** retains control of those funds, regardless of whether GSA or the agency is gaining or losing funds in their budgets.

Annual lease cost avoidance is calculated differently depending on the type of project:

For leased to owned projects: the avoidance = the total baseline annual lease contract cost.

For leased to leased projects: the avoidance = the annual rent savings with TI (Tenant Improvement)

For owned to owned projects: we assume that any space vacated by the project will be backfilled from leases; therefore, the avoidance = the RSF vacated (the baseline – the target RSF) x the market's lease rate.

Tenant Payback Calculation Details

Tenant Payback= Agency Costs/Annual Rent Savings (with TI)

The same approach is used for Tenant Payback, but we start with the Agency Costs instead of the Total Project Costs (which include GSA-only costs like shell improvements).

Tenant Payback = Agency Costs [FIT, Client Internal and RWA funding]/Annual Rent Savings (with TI).

Just as with taxpayer paybacks, if we get a result that is greater than the number of amortization years, or is negative, we complete the calculations below:

- This works well if the rent savings with TI is high enough for payback to occur while we're still amortizing TI.
- If that savings isn't high enough to offset the investment, we need to look at the costs and savings after TI drops off.
    - We can tell further calculation is needed if the payback result is greater than the number of amortization years (meaning payback occurs after TI drops off, when we have a new annual savings amount), or the result is a negative number (meaning that there is no rent savings until TI drops off).

- We still use the same approach; we just adjust our formula so we can see the first year without TI (usually year 6).

- We need to account for the savings that have already occurred during the TI years, so we reduce our Total Investment Costs by the amount already saved:
  Total Investment Costs - (Annual Rent Savings with TI * TI years)
    - That gives us the remaining Total Investment Costs
    - Then, we divide the annual rent savings *without TI* into that number
    - This gives us how many years it takes to payback the costs *after the TI drops off*, so we need to add it to the # of TI years to get our total payback time.

7. How does this program impact cash flows?
Answer:

Taxpayer Payback (savings) Calculation Examples

Example 1:

Total Investment Costs are $1M

5 years of TI amortization

Annual rent savings during TI = $500k
Annual rent savings after TI =$750k

Payback is simple: **$1M/$500k= 2 years payback**

- 2 years is less than the 5 years of amortization.
- Therefore, we don't have to consider the savings after TI. Payback is a straight division of annual savings (during TI) into costs.
- Even during TI amortization, the savings are high enough to offset the costs within the first 2 years.

Example 2:

Total Investment Costs are $1M

5 years of TI amortization

Annual rent savings during TI = $100k
Annual rent savings after TI =$200k

$1M/$100k= 10 years payback

10 years is greater than the 5 years of amortization, so that payback is overstated. It assumes only $100k a year in savings, but the annual savings jumps to $200k in year 6.

We know that payback can't occur in the ^{t} first 5 years. We don't save enough to offset the costs. Therefore, we need to calculate how long it takes *after* the 5th year to be paid back.

By year 6, our investment costs have decreased. We've already saved $500k in the first 5 years.

- Remaining investment costs after year 5 are $500k
- Annual savings after year 5 are $200k
- Payback *after year 5* is $500k/$200k = 2.5
- Therefore, our total payback is 7.5 years

8. Besides the rent savings from consolidating, does the program fund pay a portion of the cost?
Answer: Consolidation funding can be used for shell and TI in owned assets. Lessors typically pay for shell costs in leased assets. The project costs are amortized in the agency rent bill according the the pricing desk guide. In addition to Consolidation Fund costs, consolidation projects may also leverage RWA and FIT funding which carry their own qualifications and requirements.

9. How can I learn more about the Consolidation Program?
Answer: Stay tuned for email invitations to our Consolidation Road Shows coming this Spring!