U.S. General Services Administration

FEDERAL CAPITAL REVOLVING FUND

Fiscal Year 2023 Congressional Justification

CONTENTS

FY 2023 President's Budget Appendix Narrative

This account provides for the operation of the Federal Capital Revolving Fund (FCRF). The FCRF will finance the construction, renovation and purchase of federally owned civilian real property assets. The corpus of the FCRF is proposed as mandatory funding in the President's Budget. A detailed discussion of the FCRF can be found in the Budget Process chapter of the Analytical Perspectives volume.

In summary, the FCRF will create a mechanism that is similar to a capital investment budget, but operates within the traditional scoring rules used for the Federal budget. Upon approval in an Appropriations Act, the FCRF will transfer funds to agencies to finance large-dollar real property purchases, renovations and construction. Purchasing agencies are then required to repay the FCRF using discretionary appropriations over a period up to 15 years.

As a result, large real property assets funded through the FCRF, which would otherwise require a large spike in appropriations, will no longer compete in the same way with annual operating and programmatic expenses for the limited funding available under tight discretionary funding levels. Instead, the annual cost to the agency and appropriations bill is one fifteenth of the cost of the asset for 15 years, smoothing out the annual cost within the annual appropriations process and eliminating a spike in funding. This approach also has the benefit of allowing agencies to utilize the asset while making payments to the FCRF. Annual repayments, equal to $1/15^{th}$ of the asset cost, will be made from future appropriations, which will incentivize project selection based on highest mission need and return on investment, including future cost avoidance. The repayments will also replenish the FCRF so that real property can continually be replaced as needed.

Program Description

The structure of the Federal budget and budget enforcement requirements can create hurdles to funding large-dollar capital investments. These types of investments are handled differently at the State and local government levels. Expenditures for capital investments are combined with operating expenses in the Federal unified budget. Both kinds of expenditures must compete for limited funding within the discretionary levels. Large-dollar Federal capital investments can be squeezed out in this competition, frequently forcing agency managers to make difficult decisions and turn to operating leases to meet long-term Federal requirements. These alternatives are more expensive than ownership over the long term because: (1) Treasury can always borrow at lower interest rates and (2) to avoid triggering scorekeeping and recording requirements for capital leases, agencies sign shorter-term, consecutive leases of the same space. For example, the cost of two consecutive 15-year leases for a building can result in the Government paying close to 180 percent of the fair market value of the asset – and more when taking into consideration the tenant build out costs necessary for occupancy. Alternative financing

proposals typically run up against scorekeeping rules and the Recording Statute (31 U.S.C. § 1501) that measure cost based on the full amount of the Government's obligations under the contract, which further constrains the ability of agency managers to meet capital needs.
In contrast, State and local governments separate capital investment from operating expenses. They are able to evaluate, rank, and finance proposed capital investments in separate capital budgets, which avoids direct competition between proposed capital acquisitions and operating expenses. If capital purchases are financed by borrowing, the associated debt service is an item in the operating budget. This separation of capital spending from operating expenses works well at the State and local government levels because of conditions that do not exist at the Federal level. State and local governments are typically required to balance their operating budgets, and their ability to borrow to finance capital spending is subject to the discipline of private credit markets that impose higher interest rates for riskier investments. In addition, State and local governments tend to own capital that they finance. In contrast, Treasury debt has historically been considered a safe investment, regardless of the condition of the Federal balance sheet. Also, the bulk of Federal funding for capital investments is in the form of grants to lower levels of the Government or to private entities.

To deal with the drawbacks of the current Federal approach, the FY 2023 budget proposes funding in support of the establishment of the FCRF, which will: (1) fund large-dollar, federally owned, civilian real property capital projects that house Federal civilian employees; and (2) provide specific budget enforcement rules for the FCRF that would allow it to function, in effect, like State and local government capital investment budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local levels—a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost in the discretionary operating budgets of agencies that purchase the assets.

The FY 2023 Budget proposes the capitalization of the FCRF with a $5 billion mandatory appropriation, and the budget presentation scores the proposal with anticipated outlays over the 10-year window for the purposes of pay-as-you-go budget enforcement rules. Annual discretionary repayments by purchasing agencies would replenish the FCRF and would be available until expended to fund additional capital projects. Total annual capital purchases would be limited to the lower of $2.5 billion or the balance in the FCRF, including annual repayments.

Summary of the Request

The goal of this President's Budget request for the appropriation of funds in support of repayment for two inaugural projects also supports the establishment of the new FCRF within the unified budget. The FCRF will function effectively as a capital budget for investment in federally owned civilian real property and implement budget enforcement rules that exclude the upfront acquisition cost from the discretionary caps and instead charge the cost to discretionary funding over time.

In FY 2023, the budget uses the FCRF concept to fund $1.035 billion in capital investments across the civilian Government. In accordance with the principles and design of the FCRF, the 2022 budget requests appropriations language designating the specific projects to be funded out of the FCRF, which will be housed within the U.S. General Services Administration (GSA), along with $69 million for the first-year repayments for the two projects to the FCRF. The FCRF account requested will fund the first round of projects in 2023 and a total of $7.85 billion worth of Federal buildings projects using the initial $5 billion in mandatory appropriations over the 10-year horizon.

The President's FY 2023 budget includes appropriations language supporting the investment of $1.035 billion, as well as the first of 15 annual discretionary appropriation repayments of $69 million. This funding will be used for modernization projects for the Jacob K. Javits Federal Building in New York, New York and for the Estes Kefauver Federal Building and Annex in Nashville, Tennessee. The FCRF will provide GSA with $735 million for the Jacob K. Javits building to upgrade the building's fire protection, life safety, and immediate critical building system infrastructure and reconfigure interior space for more efficient utilization. The FCRF will also provide GSA with $300 million for the Estes Kefauver buildings to replace and upgrade aged building systems, infrastructure, technology and code compliance needs. Please see the Federal Buildings Fund narrative for more details on both of these projects.

Federal Capital Revolving Fund		
	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency		
to buy building..	1,035	
Purchasing agency repayments................	(69)	(966)

Purchasing Agency		
	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal		
Capital Revolving Fund............................	(1,035)	
Payment to buy building..........................	1,035	
Discretionary:		
Repayments to Federal		
Capital Revolving Fund............................	69	966

Total Government-wide Deficit Impact			
	Year 1	Years 2-15	Total
Mandatory			
Purchase Building..	1,035		1,035
Collections from Purchasing agency..................	(69)	(966)	(1,035)
Discretionary:			
Purchasing agency repayments........................	69	966	1,035
Total Government-wide	1,035	-	1,035

For budget enforcement purposes, transfers from the FCRF to agencies to fund acquisitions and spending of those amounts by agencies would be scored as direct spending, while agencies would use discretionary appropriations to fund annual repayments to the FCRF. This allocation of cost means that the upfront cost of capital investment would be included in the budget, but the up-front expense would not have to compete with operating expenses in the annual appropriations process. The FCRF does not provide any new landholding or land-managing authorities for Federal agencies.

Amounts Available for Obligation
(Dollars in Thousands)

	FY 2021 Estimate	FY 2022 Full Year CR	FY 2023 Request
Resources:			
Available from prior year	$ -	$ -	$ -
Mandatory Appropriation	$ -	$ -	$ 5,000,000
Offsetting Collections	$ -	$ -	$ 69,024
Total Resources Available	$ -	$ -	$ 5,069,024
Obligations			
Transfers for Acquisition of Real Property	$ -	$ -	$ 1,035,353
Program Administration	$ -	$ -	$ 311
Total Obligations	$ -	$ -	$ 1,035,664
Fund Balance:			
Total Resources Available	$ -	$ -	$ 5,069,024
Total Obligations	$ -	$ -	$ (1,035,664)
Fund Balance	$ -	$ -	$ 4,033,360
Net Budget Authority	**$ -**	**$ -**	**$ 5,000,000**

Obligations by Object Classification
(Dollars in Thousands)

		FY 2021 Estimate	FY 2022 Full Year CR	FY 2023 Request
11.1	Full-time, permanent	$ -	$ -	$ -
11.3	Other than full-time permanent	$ -	$ -	$ -
11.5	Other personnel compensation	$ -	$ -	$ -
12.1	Civilian personnel benefits	$ -	$ -	$ -
21.0	Travel and transportation of persons	$ -	$ -	$ -
23.1	Rental payments to GSA	$ -	$ -	$ -
23.3	Communications and utilities	$ -	$ -	$ -
24.0	Printing and reproduction	$ -	$ -	$ -
25.1	Advisory and assistance services	$ -	$ -	$ -
25.3	Other goods & services from Federal sources	$ -	$ -	$ 311
26.0	Supplies and materials	$ -	$ -	$ -
31.0	Equipment	$ -	$ -	$ -
32.0	Land and structures	$ -	$ -	$ -
33.0	Investments and loans	$ -	$ -	$ -
41.0	Grants, subsidies, and contributions	$ -	$ -	$ -
42.0	Insurance claims and indemnities	$ -	$ -	$ -
43.0	Interest and dividends	$ -	$ -	$ -
44.0	Refunds	$ -	$ -	$ -
94.0	Financial transfers	$ -	$ -	$1,035,353
99.0	**Obligations, Mandatory**	**$ -**	**$ -**	**$1,035,664**
	Subtotal, PC&B	$ -	$ -	$ -
	Subtotal, Non-labor	$ -	$ -	$1,035,664

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