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BIG TICKET WASTE: ARE EMPTY FEDERAL BUILDINGS EMPTYING THE TAXPAYERS' WALLETS?

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

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FEBRUARY 6, 2006

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BIG TICKET WASTE: ARE EMPTY FEDERAL BUILDINGS EMPTYING THE TAXPAYERS' WALLETS?

MONDAY, FEBRUARY 6, 2006

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY,

OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10 a.m., in room 3087, Cardiss Collins Post Office, 433 W. Harrison Street, Chicago, Illinois, Hon. Tom Coburn, Chairman of the Subcommittee, presiding.

Present: Senators Coburn and Carper

Also present: Senator Obama.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. I welcome you to this hearing and welcome Senator Obama, and Senator Carper shall be here shortly. And I want to especially thank the Postal Service for their help in both arranging the hearing and also the information that they've been, and the assistance they've given to my Subcommittee staff.

Senator Carper and I held 21 Subcommittee hearings last year. We'll hold about 42 hearings this year in terms of highlighting the problems of both in terms of inefficiency, government waste, lack of planning, lack of accountability, and lack of transparency.

There is a significant problem in terms of Federal ownership of buildings, both in terms of the costs associated with those buildings, the maintenance costs, the efficiency with which we handle them. The long term maintenance costs, and the decisionmaking process under which those buildings are managed.

It is also, we discovered in one of our other hearings that very rarely does the Federal Government now consider lease purchase arrangements. They don't do that because of the way CBO scores that in terms of charging the complete lease costs to the building at the time, even though it's a poor financial decision, we make a decision that helps make the budget numbers look well and better, but at the same time in the long term hurts our children.

Senator Obama and I have worked together on multiple items in terms of trying to control spending and efficiency in transparency throughout the Federal Government. The underlying problem is:

Last year the Federal Government spent $500 billion more than what it took in. The debt increased by $520 billion. That comes to $1,700 per man, woman, and child in this country. If you amortize that over 30 years, you're talking about $30,000 a year that we're adding to our children's debt.

This is just one small hearing among many in the oversight hearings that the Congress is going to conduct this year to look at how we get better. How do we do things more appropriately, more efficiently. How do we utilize the information that a lot of the agencies know but don't have the ability to do because Congress has either hamstrung them with regulation or laws that limit their ability to function in a proper financial manner that will, in fact, promote efficiency and save them money.

Our goal through this hearing is to listen, to not make judgments at this hearing, but also to consider the things that maybe Congress ought to be trying to do to make this more efficient. The President issued an executive order in February 2004 that put, for the first time, a demand that Federal real property be managed. There's a Real Property Council that has now come forward, and it's our hope that through this process, and what we can do in terms of oversight, that we can assist in the management of the real assets.

A couple of problems that we've noticed in looking and preparing for this hearing: One is the private sector utilization of square footage is about one third the amount of the Federal Government's utilization per square footage doing exactly the same thing. That's a question that raises some very disturbing problems for us to look at in the long run. The other thing is that the cost often times is greater, both in terms of the management cost and the acquisition cost. And that is even after you discount for the specificity and specialized characteristics of government buildings.

The one thing we do know is up until December of this year, the Federal Government had no idea what it really owns, and has no complete record of the condition of those assets, the availability of those assets, the efficiency of those assets. Through the executive order issued in February 2004, that is starting to come together and the Real Property Council is starting to put that together. We think that's a good trend, but we think probably more needs to be done. And it's my hope that during this hearing that we're enlightened, and the gentlemen that are going to be testifying before us can help us in terms of making decisions to ease this or tell us where else to look to make us better stewards of the taxpayer's money when it comes to building.

I want to thank Senator Barack Obama for being here. I thank him also for his friendship and the way he's worked with me in Congress thus far, and I would like to turn it over to him. Senator Obama.

[The prepared statement of Senator Coburn follows:]

Chairman's Statement
Senator Tom Coburn, M.D. (R-OK)
Big Ticket Waste: Are Empty Federal Buildings Emptying the Taxpayers' Wallets?
February 6, 2006

Welcome. I want to thank you for joining me and my Senate colleagues here in the windy city. It's always a pleasure to get out of the alternate universe of Washington, DC and visit with plain-dealing Americans. Americans have common sense, and Americans understand the basics of financial management. Senator Carper and I have been trying to bring some of these basics back to Washington and apply them to the Federal government.

We are here today to bring some sunshine to a problem with wasted and unused Federal space. And unfortunately, the "poster child" for this problem is just across the street from us. The 2.5 million square foot post office has been vacant since 1997 – that's 9 years. Nine years of maintenance costs. Nine years of lost potential rental income if we'd rented it out. Nine years without the profit we could have applied to improving the postal system or keeping postal rates low, had we sold the building when we first vacated it. Or maybe nine years a non-profit group could have been putting that building to public use such as serving the homeless.

You see, wasted, unnecessary Federal space isn't just a nuisance, or an eye-sore, or a wasted opportunity. It's actually robbing the country of what we should be getting for our money. But it's not just us being robbed. When you consider the unsustainable growth of programs like Social Security and Medicare, and the promises we won't be able to afford to keep for our children and grandchildren, then the waste across the street is actually robbing future generations of their quality of life.

It's hard to imagine that, sitting here in the heart of downtown Chicago, you wouldn't see developers lining up to buy that building. And in fact, to its credit, the Postal Service HAS been trying to get rid of the building for a long time. But the legal and regulatory barriers that previous Congresses and Administrations have erected have made it all but impossible.

This isn't an easy topic to get people excited about. But it's a big problem. Or at least, we think it is. The fact is, your Federal government doesn't actually know how much space it needs and doesn't need. Nobody keeps track in any systematic way. Until President Bush took office, nobody had the authority to demand the information be collected across the whole government.

Here's what we do know. The Federal government has about $328 billion in real estate assets worldwide. Given a Federal workforce of 4.1 million civilian and uniformed personnel, that means we are putting an $80,000 roof over every single Federal employee's head. Put another way, the Federal government owns over 2.8 billion square feet of building space. That means we house each Federal employee with almost 700 square feet of office space. How many

square feet are in YOUR office? Mine is about 450 square feet, and I used to think I had a pretty nice set-up!

Now these statistics aren't real in the sense that we don't really give every employee a 700-square-foot office. But the fact that these numbers are so over the top tells us something about excess Federal space. We could not possibly be using all this space.

GSA estimates that the government owns more than 415,000 buildings and pays rent on 72,000 leases. Our annual rent bill is $6.7 billion. That means we have a whole Federal building for every 8 Federal employees. And Americans pay over $1,600 in rent on leased space for every single Federal employee. Every facility that we rent instead of own means that the taxpayers gain no equity during years and years of leasing. As we discovered in a hearing last year, these leasing arrangements are usually in the form of the most costly leasing schemes possible – called "operating leases."

Not all the blame, however, can be laid on the agencies. The statutory hoops an agency must jump through in order to get rid of property make it almost impossible to dump a property and they create a slew of disincentives to do so. For instance, once an agency decides it wants to get rid of a facility, it has to offer the building up, potentially at a loss for the taxpayers, to non-profit groups for public use. If it gets no takers, it then has to make discounted offers to local and state governments. Then, and only then, can the agency sell the building at market rates. Of course, when it does so, the agency will appropriately have to put the money from the sale into the Federal treasury rather than stuffing its own pockets. Under these conditions, it's easy to see why agencies procrastinate addressing the serious problem of wasted and unnecessary facilities. Taxpayers and their representatives in Congress must demand action.

To that end, here are some key steps that need to happen on the path back to fiscal sanity:

1. **Responsibility for ALL Federal property needs to be centralized.** Some could argue about whether the responsibility should rest with each agency head only, or with GSA only, but it can no longer be split between the two. OMB has performed some useful coordination, but the real authority for fixing our broken real property mismanagement must rest with one identifiable person.

2. **The Federal Government must keep records of what it owns and leases.** It's embarrassing that we haven't even gotten this far. One of the first principles of accountability is transparency.

3. **The Federal Government needs a set of criteria for designating a building as "excess" or not.** These criteria may vary from agency to agency, but the criteria need to be written, standardized to a reasonable degree, and applied consistently and predictably to every Federal property.

4. **The Federal Government needs to assess the monetary value of its excess space and factor that into its budget process.** Once a regularized process is in place for

designating a property as excess, then the financial value of that asset needs to be determined and applied to the overall Federal budgeting process. As the President prepares his budget each year, he needs to know what assets he'll have coming in from disposed property so that he can factor those proceeds in before he makes a request of Congress for ever-increasing appropriations.

Every American family understands that when they sell their home, they will be able to use the profit to meet other needs or to invest in a different home. People don't usually buy a new car until they sell their old one and they know how much they're going to get for it. Americans should demand no less common sense in their government's financial management than they would in the management of their own households.

We're not here to chastise the Administration. President Bush inherited this situation – both the quantity of excess property and the statutory and regulatory barriers to getting rid of it. He has made commendable first steps in the right direction and I look forward to working with the Administration to move the process even further along.

I want to thank all the witnesses for being here today, including the VA, the Department of Defense, GAO, and GSA. I especially want to thank the U.S. Postal Service for testifying, but also for hosting us and being particularly helpful to my staff in preparation for this hearing.

TESTIMONY OF HON. BARACK OBAMA, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator OBAMA. Thank you so much. Well, thanks so much to Chairman Coburn. I want to thank Senator Carper in advance. I know that he'll be here in a second. And obviously I want to welcome both of you to Chicago. Having worked with both Senator Coburn and Senator Carper, I have to say that both of them are outstanding Senators and both of them operate with great conviction. And I think this hearing is a testimony to that. You have to have a lot of conviction to schedule a hearing in Chicago in February, particularly when it starts off with a tour of an unheated postal building.

Senator COBURN. We missed you.

Senator OBAMA. Yes. I've seen it before. Now I'm not a member of this Subcommittee, but the subject today is of great importance to me, one that I'm pleased to participate in. I appreciate the panelists who are going to be taking the time to enlighten us on some of these issues. I know that you guys have busy schedules, and I appreciate you recognizing the gravity of the problem.

I think Senator Coburn outlined the problem well. Regardless of what side of the aisle you're on, whether you're a Republican, Democrat, Conservative, or a Liberal, one thing that's clear is that this country is in dire financial straits. We've got a Federal budget deficit that will exceed $400 billion this year. By the end of 2006, we will have spent the same amount of money on the wars in Iraq and Afghanistan. The cost of reconstruction in the gulf coast as a consequence of Hurricane Katrina and Rita will easily exceed at least $100 billion.

At the same time, we in Congress face a whole host of difficult choices about how we're going to fund important domestic programs that are important to average Americans, programs like Medicare, Medicaid, and Student Aid. Today we know that the President will release his budget for next year. We have no doubt that we will probably see additional cuts in these important programs, even as we're going to be continuing to ask taxpayers to spend additional monies to deal with the war in Iraq and Afghanistan.

So, given the financial crisis facing our country, I think it's incumbent upon our government agencies to function as effectively and as efficiently as possible with limited resources at its disposal. Which brings us to the subject of today's hearing. Insuring that the Federal Government manages its assets in the most cost effective way is a critical goal. Clearly, it's not going to close a $400 billion budget shortfall. It's not going to address some of the structural imbalances between revenues and expenditures. I think Senator Coburn and I both agree on that. But it's an important step in the right direction.

A more efficient property management system would get unneeded and underutilized properties off the government books more rapidly. It would provide Federal agencies with much needed funds that could be used to provide direct services to the American people. And it certainly doesn't make sense for taxpayers to continue spending money on holding costs for vacant buildings, like the one that Senator Coburn and Senator Carper just took a tour of, build-

ings that the government doesn't need or doesn't want. Particularly as is the case here where there are private interests involved, and we're talking about prime real estate.

Selling unneeded Federal property also has the additional benefit of spurring economic development especially in places like Chicago where commercial real estate in downtown areas is always at a premium.

So what I hope we can accomplish today is to learn a little more about the process of how the government determines which properties to keep and which properties to sell, and in doing so maybe we can identify some of the pitfalls that exist and figure out how we can improve the system overall. This is just the start of an undertaking that's going to require a sustained commitment by all branches of government. And I'm very appreciative that Senator Coburn and Senator Carper should be commended for conducting this oversight process.

Just one last note. Senator Coburn mentioned that he and I have been working on quite a few issues. We joined together to see if we could encourage better oversight of the process of spending for gulf coast reconstruction. He and I have been concerned about no-bid contracts, and we're working on a variety of other fronts to see if we can improve the fiscal management in Washington.

Maybe it's because we're both new that we're naive enough to think that the process can change. But people often are curious how is it that a Democrat from Chicago and a Republican from Oklahoma see eye to eye on this stuff. A lot of times the media portrays Republicans and Democrats as opposed when it comes to budget battles.

Here would be my argument; that if you are progressive and you care about government helping out the vulnerable, and you are concerned with the government's ability to provide services, then you should be more conservative when it comes to how a government spends its money than just about anybody. We can't afford to waste money. We don't have enough money right now to provide enough student loans for the students who need it. We don't have enough money to provide health care to all the people who need it. And so from my perspective at least, I think it makes perfect sense to be a fiscal hawk because every dollar that's wasted on a building that's not being used, is a dollar that could have been sent to somebody who really needs help. And I think Senator Coburn agrees with me on that.

So with that, I appreciate very much your time.

Senator COBURN. Thank you Senator Obama. I'm going to introduce our panel and we will recognize you, and then after we have heard from all the panel, then we'll go through questions.

First is Mark Goldstein of the Government Accountability Office. Mr. Goldstein is Director of Physical Infrastructure Issues at the U.S. Government Accountability Office. He is responsible for the agency's reviews, audits, and investigations in Federal property, telecommunications, and special projects. He has done a great deal of work in recent years on the government's management of real property assets. Mr. Goldstein.

TESTIMONY OF MARK L. GOLDSTEIN,[1] DIRECTOR, PHYSICAL INFRASTRUCTURE TEAM, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. GOLDSTEIN. Good morning. Thank you very much, Mr. Chairman, Senator Obama.

Senator OBAMA. How are you sir?

Mr. GOLDSTEIN. Good, thank you. I thank you for the opportunity to testify today on our work related to Federal real property and, in particular, the problems with excess and underutilized property.

As you know, at the start of each new Congress since 1999, we have issued a special series of reports entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. In January 2003, we designated Federal real property as a high-risk area as part of this series, and we issued an update on this area in January 2005. We identified excess and underutilized property as one of the major reasons for the high-risk designation.

Other reasons included deteriorated property, unreliable real property data, over-reliance on costly leasing, which you, Mr. Chairman, held a hearing last fall, and the challenges associated with protecting these assets from terrorism. My testimony today will discuss one, our designation of Federal real property as a high-risk area, focusing on excess and underutilized property, and two, describe various efforts to address the problem and what more needs to be done. My testimony highlights the following points.

The condition that led to our January 2003 high-risk designation still exists. Many of the assets in the government's vast and diverse portfolio of real property are not effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration. Agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Additionally, a heavy reliance on costly leasing, instead of ownership, to meet new needs is a pervasive and ongoing problem. These problems have been exacerbated by underlying obstacles that include competing stakeholder interests in real property decisions, various legal and budgetary related disincentives to businesslike outcomes, and the need for better capital planning by real property-holding agencies.

The Administration has acknowledged the problems in this area. In February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed an executive order on real property management reform. These and other efforts at the agency level are positive steps. However, the breadth and complexity of the issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies' efforts to realign their real property assets to their missions. As a result, we continue to believe that a comprehensive and integrated transformation strategy is needed to address the aforementioned underlying obstacles. As an example, the Office of Management and Budget and other stakeholders could look to the U.S. Postal Service Transformation Plan and related progress reports, which GAO has supported for guiding postal reform.

[1] The prepared statement of Mr. Goldstein appears in the Appendix on page 39.

In summary, the excess and underutilized property problem was, and continues to be, a major reason the real property area remains high risk. In the last decade alone, the Federal Government has reduced its workforce by several hundred thousand personnel, and several Federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. The advent of electronic government is starting to change how the public interacts with the Federal Government. These changes will have significant implications for the type and location of property needed in the 21st Century. Furthermore, changes in the overall domestic security environment have presented an additional range of challenges to real property management that must be addressed.

Mr. Chairman, this concludes my prepared statement. I'll be happy to respond to any questions that you or Members have.

Senator COBURN. Thank you very much, Mr. Goldstein. Next is Bill Matthews of the U.S. General Services Administration. Mr. Matthews is the Assistant Commissioner of the Office of Real Property Asset Management at the U.S. General Services Administration. He is responsible for asset management and continuous financial improvement for a nationwide portfolio of over 1,500 federally owned properties which generate almost $7.3 billion per year in revenue. He is also responsible for capital planning and investment, portfolio strategy, policy and analysis, and disposal. Mr. Matthews.

TESTIMONY OF WILLIAM H. MATTHEWS,[1] ASSISTANT COMMISSIONER, OFFICE OF REAL PROPERTY ASSET MANAGEMENT, U.S. GENERAL SERVICES ADMINISTRATION

Mr. MATTHEWS. Thank you, and good morning Dr. Coburn, Senator Obama.

Senator COBURN. Good morning.

Mr. MATTHEWS. I'm pleased to have an opportunity to talk about GSA's Real Property Asset Management Program. GSA is one of the largest public portfolios of buildings in the world. Our portfolio's diverse, consisting primarily of office buildings, but also courthouses, laboratories, border stations, and warehouses.

GSA has an inventory system that is capable of accurately and consistently reporting real property data that meets the Federal Real Property Council's new inventory reporting requirements. Using the FRPC government-wide standards and criteria, our current inventory would consist of over 8,932 assets, leased and owned, totaling just short of 388 million square feet.

GSA captures the inventory information in our System for Tracking and Administering Real Property. It is the primary tool by which GSA manages our real property assets to store inventory data, building data, customer assignment data, lease information

[1] The prepared statement of Mr. Matthews appears in the Appendix on page 54.

and related data for over 20,000 assignments of space for all three branches of government.

Over 4 years ago, GSA implemented a PBS portfolio strategy to restructure our portfolio of owned assets to consist primarily of financially performing assets for which there is a long-term continuing Federal need to reinvest first in these assets to optimize and preserve their value for customer agencies and the taxpayer. Thus far, following this strategy, we have been able to reduce the percentage of underutilized properties from 42 percent to 26 percent within our inventory, to reduce vacant space from 9.2 percent to 6.8 percent. We have reported in excess of 204 assets and demolished 50 buildings, eliminating 3 million square feet of space and outwitting reinvestment cost of over $400 million.

Applying the FRPC definition of asset utilization, 96 percent of GSA's leased and owned assets are utilized. Only 376 assets are considered not utilized or underutilized. As a result of GSA's efforts to restructure, we have developed strategies for non-performing government owned assets ranging from cost containment, outleasing of excess space, exchanging assets, conveying assets to tenant agencies and disposal. One-third of our underutilized and unutilized assets have already been reported excess and accepted into the disposal process. Eighty-nine leased facilities in 2005 were determined to be underutilized. In cases like this, GSA uses backfill of other competing customer requirements, terminating the lease or buying out, when it's possible, the remaining term of the lease. At the end of fiscal year 2005, GSA's lease vacancy rate was for us a record low level of below 1.5 percent.

At any given time with an aging inventory it's imperative to reinvest, and at any given time some of the buildings in our inventory will be vacant, or partially vacant, as a result of modernization. Again, in 2005 we had 21 assets in this category that were temporarily vacant. Of the remaining underutilized assets, space is vacant and available for assignment for tenants, however, this group accounts for less than 1.5 percent of our total. Now 76 of these buildings are embedded in facilities where they cannot be easily separated and sold. Eighteen of the buildings are active courthouses. Sixteen buildings are vacated because of the Hurricane Katrina and will soon be reoccupied. And for the remainder, we're working on strategies for reinvestment.

When it comes time to dispose of an asset, GSA conducts a thorough retention disposal asset management and utilization kind of study. And for decisions to dispose of them, we would do a report of access and turn the properties over to our office of disposal, which not only disposes of GSA's properties, but any other land holding agency using our own authorities or the authorities of the agency that wishes us to help them with the disposal.

We follow a four step process. First, we screen our properties for other Federal use that might be continuing outside of GSA's needs. We screen for opportunities for Public Benefit Conveyance opportunities. We negotiate with local community stakeholders to promote highest and best future reuse of the property in the context of the community. And finally, for properties that for which have not been claimed during that screening process, we take them to market using sealed bid, public outcry auctions, and internet sales.

We're particularly pleased with our success in conducting internet auctions. Last year we were able to sell a 75-year-old warehouse of 55,000 square feet in Portland, Oregon, for almost $2 million, and 17 percent over our expected fair market value. And the transaction cost was less than one half percent of the sale price.

GSA also makes use of exchange authorities, exchanging properties with other Federal agencies and public entities.

Two of the significant challenges we face in doing disposals; the first involves funding required by our customers in underutilized assets where there's partial occupancy that continues. When we dispose of the asset, those people have to be relocated and the obligation for moving costs, telecommunications and related soft costs are borne by the tenant, who's often challenged budgetarily in their own right.

GSA also struggles with limited reinvestment capital to choose between investing in buildings we know we want to keep, backfilling vacant space, replacing important pieces of infrastructure, versus the cost of disposal, remediation of environmental issues, due diligence, and occasionally, demolition costs.

GSA's portfolio strategy calls for retention of assets for which there's a continuing Federal need first, and which generates sufficient rental income to cover their cost. With the exception of a few historic assets, the opposite of that is we divest of what's left. That divestiture has resulted in cost savings and holding cost and reduced the amount of vacant space in our inventory. GSA uses performance measures and commercial benchmarks such as vacant space disposal cycle time, and operating costs to monitor our performance.

Unless there is the use of a special retention of proceeds authority, the net proceeds generated from the sale of GSA properties are directed for deposit into the Department of Interior Land and Water Conservation Fund rather than our own Federal Buildings Fund. We believe that retention of proceeds is one of the most powerful incentives available for vigorous asset management and prompt decisions on disposal.

A specific example of this financial incentive is GSA's pending sale of a two million square foot facility at Middle River in Baltimore County, Maryland. In fiscal year 2005, Congress specifically granted GSA the authority to dispose of the property and retain the proceeds for sale in the Federal Buildings Fund. These funds will then be used for real property capital investment needs.

GSA is in a unique position with customer agency requirements driving the composition of our real property inventory. We experience a dynamic real estate environment with customer agencies changing their mission, growing programs, shrinking programs, and adjusting to market conditions. Despite record levels of disposal in the last few years, GSA's portfolio's continued to be relatively stable with modest growth.

Mr. Chairman, that concludes my statement. I would be pleased to respond to any questions you may have.

Senator COBURN. Thank you, Mr. Matthews. Next is Jim Sullivan, the Department of Veterans Affairs. Mr. Sullivan serves as Director of the Office of Asset and Enterprise Management at the Department of Veterans Affairs. Mr. Sullivan helped create this

relatively new department level office that serves as the principal policy office and business advisor regarding acquisition management and disposal of all department capital assets. Mr. Sullivan.

TESTIMONY OF JAMES M. SULLIVAN,[1] DEPUTY DIRECTOR, OFFICE OF ASSET AND ENTERPRISE MANAGEMENT, U.S. DEPARTMENT OF VETERANS AFFAIRS

Mr. SULLIVAN. Mr. Chairman and Members of the Subcommittee, I am pleased to appear this morning to provide you with an overview of the Department of Veterans Affairs ongoing efforts and processes to strategically manage underutilized and vacant space within the VA system. VA is the owner, tenant, and operator of one of the largest healthcare related real estate portfolios in the Nation. Our inventory consists of a large assortment of lands, building, and facilities such as hospitals, clinics, office buildings and cemeteries. In total, we own more than 32,000 acres of land and 5,300 buildings spread across 300 sites across the Nation.

At the close of 2005, VA owned approximately 148 million square feet of space. Of this total, VA generated revenue from about 5 million square feet of underutilized space. This represents a million square foot reduction in non-productive, underutilized space from the previous fiscal year. Nationwide, the cost per square foot to operate and maintain VA properties was the equivalent of $4.98 per square foot, or about $750 million a year.

VA does, however, have a significant number of properties in its inventory in locations that do not coincide with where veterans currently live and receive services, and many of these buildings are more than 50 or 60 years old. Nationwide, we have approximately seven million square feet of vacant space, or a little less than 5 percent of our total inventory, scattered across the country. As modern trends in healthcare move away from large inpatient units and more toward outpatient care, VA may see areas of vacant space at one facility, while another facility may have a need for significantly more space.

In 2003, VA launched the Capital Asset for the Realignment for Enhanced Services for veterans, or CARES initiative. This was to conduct a comprehensive, system-wide approach, identifying the demand for VA care and projecting into the future the appropriate function, size and location of VA facilities. The Secretary of Veterans Affairs announced his decision on May 7, 2004, and this became and is VA's roadmap for the future.

I'm excited to share with the Subcommittee the success VA has had with public private ventures to leverage VA's underutilized assets. VA has put in place transitional homeless housing units, affordable housing, hospice facilities, in formerly underutilized properties and provide these services for our Nation's veterans.

VA has a unique authority, its Enhanced-Use Lease authority, which was authorized in 1991 providing a proven method to leverage VA's diverse real estate portfolio and market position. From underutilized assets, revenue is redirected back to the healthcare and capital operations of our medical centers, cemeteries, and benefit offices that serve our Nation's veterans every day.

[1] The prepared statement of Mr. Sullivan appears in the Appendix on page 62.

VA partners with private or nonprofit entities who in turn provide as consideration such things as low-cost senior housing, cogeneration or energy facilities, homeless shelters, childcare centers, mental health centers, office buildings, and parking facilities. In 2005, VA received over $900,000 in cash, in-kind considerations such as homeless housing, space parking, and discounted energy services, and $28 million in a one-time payment from these efforts.

In fact, here in Chicago is the first site whereby VA used its Enhanced-Use Leasing authority to implement a CARES realignment decision. Specifically, on January 2005, VA signed a 75-year Enhanced-Use Lease with Northwestern Memorial to outlease an unneeded VA hospital in downtown Chicago at the Lakeside facility, providing VA $28 million in outlease revenue. And eventually we disposed of that facility, about 3 months ago, for an additional $22 million which came back to VA to provide additional services.

In addition, VA has recently signed several agreements at the Hines facility here in Chicago. VA signed a 32-year lease of land in exchange for the renovation of existing VA facilities to provide for preferential residential transitional housing for veterans. It also signed a 75-year lease in exchange for the renovation of an existing VA building for senior housing at the Hines facility.

Similarly, in Minneapolis, VA, we signed a 60-year lease for five acres of property in exchange for affordable housing facility for needed services for veterans.

There are many initiatives here that we could speak of, and my testimony that is submitted for the record. I would be happy to answer any questions, and thank you for your support in our commitment to our Nation's veterans. Thank you.

Senator COBURN. Thank you, Mr. Sullivan. Next is Tom Samra. Mr. Samra was named Vice President, Facilities, at the U.S. Postal Service in November 2005. He is responsible for one of the largest civilian construction programs in the United States. He oversees all Postal Service properties, including over 8,000 owned and 26,000 leased facilities valued at more than $10 billion. He is also responsible for the disposition or redevelopment of excess properties. Mr. Samra.

TESTIMONY OF TOM SAMRA,[1] VICE PRESIDENT, FACILITIES, U.S. POSTAL SERVICE

Mr. SAMRA. Good morning, Chairman Coburn, Senator Carper and Senator Obama. I'm pleased to discuss the Postal Service's continuing and aggressive efforts to dispose of surplus buildings and real estate. We are particularly pleased to host today's hearing. While I will limit my remarks, I have submitted a written statement and ask that it be included in the record.

I'm relatively new to the Postal Service. I have been at my job for 2 months, however, having spent 12 years at UPS and 9 years at the American Red Cross, I have been impressed with the efforts of our people to adjust our network of properties to meet the changing demands of our customers and their communities. We assume, considering the pace of change today, that the process of change will be constant going forward. It is our intention to remain flexi-

[1] The prepared statement of Mr. Samra appears in the Appendix on page 70.

ble, responsive and to keep a sharp eye on the bottom line. Because the Postal Service operates like a business, recovering our operational costs through the sale of our product and services, not through appropriations, we must maintain our focus on minimizing excess costs and optimizing revenues. We remain focused on maximizing customer value.

Many communities are growing, while others are not. Our population centers are shifting and modern technology is offering constant improvements to our operations. In order to maintain our efficiency, we must continually adjust our network to accommodate these changes. These adjustments and accommodations often result in turning perfectly useful components of our network into surplus properties.

Since 1997, we have been guided by a focused asset management program intended to maximize the return on underutilized and surplus facilities through sales and leases. This program has allowed us to remove more than 500 properties from our portfolio, and has generated more than $1 billion in gross revenues. Last year we sold 50 unneeded buildings.

When a property is no longer needed by our operation, it is immediately added to our sale property database and we begin the disposing process. Normally, this happens a considerable time before the facility is actually vacated. This is the key to keeping our inventory of unneeded facilities as low as possible. Today fewer than one-tenth of one percent of our properties are considered surplus, only 44 out of more than 34,000. Of these, 27 have been offered for sale, 13 are under contract, and 4 are in active negotiations.

Even with our best efforts, the sale of some properties can be extremely challenging. Let me explain more about one such property, the former Chicago mail processing center, which we just visited. It served us well for many years, but it could not accommodate the space requirements of today's automated equipment and mail flows. This is an industrial building on which construction began in 1922. It is the largest building that the Postal Service has ever owned. It is essentially three buildings combined into one. Floor elevations do not align. The window to floor ratio is extremely low, and the ten floors, each of 250,000 square feet, have proved nearly impossible to divide into smaller uses. Because of the configuration and sheer size, at 2.5 million square feet, it has been proven impossible to identify a single use purchaser.

We have considered mixed use projects, such as a mix of office, hotel and residential. These require a very long development time and are very dependent on market cycles for each use. The high vacancy rate for Chicago area office space has made this facility a much less attractive option for potential office tenants. It requires extraordinary repairs and alterations, and it competes with more modern space. I should add that efforts to comply with historic landmark regulations have also limited our redevelopment options for this property.

We have pursued redevelopment approaches for this very unique site over the course of the last 7 years. I emphasize that each development proposal requires a great deal of time. The first was to keep the building intact, with a significant residential component.

Unfortunately, the market downturn following September 11 has all but eliminated the feasibility of this plan.

We have explored the telecommunication hotel concept, which appeared at first to be an ideal use for the property. But the dot-com crash in 2000 and the changes in banking regulations requiring financial institutions to locate operation centers away from downtown areas, has rendered this use no longer possible. In addition, the fact that this property straddles both a major expressway and an active rail operation reduces interest in the site.

Our third and most recent proposal involves modifying the site in hope of reviving the mixed use concept. We believe we now have a plan that preserves the special historic considerations, while making the building more attractive to users. We are guardedly optimistic about the prospect for this concept, and we are working vigorously with other stakeholders in pursuit of this use.

We are working with appropriate Federal, State, and local government agencies to satisfy a wide range of requirements and obtain needed support. We have identified a developer who has made a significant investment in pursuit of a profitable use for the site. We are also continuing our active dialogue with the City of Chicago and addressing their concern. I should point out that this process, though not typical of most sites, is in line with projects of this magnitude and complexity. This site's urban location, its proximity to highways and rail lines, its historic value, some of the material used in its construction that are now considered to be hazardous material, and its pure magnitude and scale all combine to demand extraordinary due diligence on the part of all who are involved.

We also recognize that this building has become a local landmark for Chicago residents. They too have an interest in the future of this site. We want to be certain that the final use, design, and construction of the ultimate concept will optimize the value for each of the stakeholders while respecting the need for the Postal Service to minimize expenses and deliver value to our customers as a matter of course.

I want to assure you that this project remains a top priority for us. I also would like to thank you for your time and interest in this particular project. This hearing will help us—the interests of all stakeholders and ultimately your support will be instrumental in helping us dispose of this quite unique surplus property.

Regarding our overall program, we continue to diligently whittle away at our surplus properties. Other successes you may find of interest include the sale of our historic Memphis, Tennessee property. This building was sold for $5.3 million last month, and because this sale satisfies an immediate need on the part of the buyer, we will avoid the cost of carrying it as a vacant property. The day we vacate the site, we will turn the keys over to the new owner. The sale of an interest in the income from a ground lease on our New York Lexington Avenue has resulted in revenue of $130 million. And over the last several years, the sale of major mail processing facilities in Los Angeles and Denver contributed to more than $60 million in revenues.

In conclusion, I can assure you that the Postal Service fully recognizes the need to maintain a facility network that provides maximum efficiency in a constantly changing business environment.

This is critical to our mission of providing affordable, universal mail service for our Nation and its citizens. In a network the size of the Postal Service, surplus properties are part of providing the best business solution for our operations. The expense related to disposing of these properties will remain a necessary business expense that must be managed with the same attention to detail and due diligence as our other major expenses. We remain open to any suggestions you might have on how we might improve our approach. I will now be pleased to answer any questions you may have.

Senator COBURN. Thank you, Mr. Samra. Our next guest is Dr. Get Moy. He's the Director of Installations Requirements and Management at the Department of Defense. He's responsible for the stewardship of the Department of Defense installations nationwide. As Director, Dr. Moy supports military readiness in life, appropriate sizing of domestic and overseas based structures, and improved installation management, while ensuring that energy and environmental mandates are met. Among other duties, Dr. Moy oversees real property accountability at the Department of Defense. Dr. Moy.

TESTIMONY OF DR. GET W. MOY,[1] DIRECTOR, INSTALLATIONS REQUIREMENTS AND MANAGEMENT DIRECTORATE, OFFICE OF THE DEPUTY UNDER SECRETARY OF DEFENSE (INSTALLATIONS AND ENVIRONMENT), U.S. DEPARTMENT OF DEFENSE

Dr. MOY. Good morning, Mr. Chairman.

Senator COBURN. Good morning.

Dr. MOY. I appreciate the opportunity to brief you and the other Members of the Subcommittee on how the Department of Defense goes about managing its disposal of underutilized and vacant space. I have a prepared statement which, with your permission, I'll submit for the written record.

Senator COBURN. All prepared statements will be made a part of the record without objection.

Dr. MOY. Sir, the first thing I would like to start off with is the statistics. From the Department's standpoint, the Department currently owns and manages 570,000 buildings with a plant replacement value of over $650 billion and over 46,000 square feet. Of the 570,000 buildings and structures, we own about 480,000 of those facilities. We lease about 11,000, and we manage about 81,000 that are owned by others, such as NATO, such as the State governments for National Guard facilities.

From a perspective of the real property inventory, since 1997 the Department set out to build a corporate-wide inventory management system of its assets. And it's been extremely important, because we use that as a forecast as to what our requirements are to support operation and maintenance, sustainment and recapitalization of its facilities. So it's extremely important to keep an accurate inventory system.

From a management standpoint, what you have in front of you in the red colored document, is a document that we issued in Sep-

[1] The prepared statement of Dr. Moy appears in the Appendix on page 74.

tember 2004. It's a capabilities-based, performance-based Defense Installation Strategic Plan that we use to manage our assets in the Department of Defense. It incorporates recommendations that the General Accountability Office has recommended, and has been approved by the Office of Management Budget as a mechanism for the Department to manage its assets in accordance with the executive order on asset management and the Federal Real Property Council's requirements.

With regards to the specific matters at hand, at today's hearing, there are four points I'd like to cover. One is that one of our identified weaknesses in real property inventory, is the reporting of, the ability to report accurately, with confidence, vacant and underutilized spaces. We found that last year during our Base Realignment and Closure (BRAC) process, commonly known as BRAC, we had to go out and make special data calls to make sure that we had current information on underutilized and vacant space at the corporate level.

Learning our deficiency in that area, we initiated a reporting process that by September 30, 2006, we at the corporate level of the Department of Defense, will be able to receive data from our military departments on the exact information on underutilized and vacant space and will be able to answer specific questions. At least be better to answer specific questions on vacant or underutilized spaces.

The second point is that the management of the Department's real property is the responsibility of the Military Department that owns that underlying real property, that real estate—the Army, Navy or the Air Force. In accordance with the Federal Property and Administrative Services Act of 1949, when that Military Department has determined that property no longer has a need, a military need in the Department, we turn that over to the General Services Administration for disposal, which goes through its protocols. However, before we actually do that there is a very rigorous process to make sure that there is no military need for that property.

The third point is that in 1998 the Department set out on a 6-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later we had concluded that effort by exceeding our target, removing a total of 86 million square feet. As part of a continuing effort to dispose of unneeded facilities, the Department recently completed a new survey of demolition requirements and established a goal of an additional 66 million square feet to be eliminated, which we are in the process of pursuing.

The fourth point is that since 1988, the Department has had the statutory authority to restructure its land and facilities commensurate with changing missions in accordance with the legislative mandated BRAC process. The Secretary of Defense has mandated that BRAC should be used to rationalize our infrastructure and make sure it supports the force infrastructure, that joint capabilities are used in joint utilization and that we eliminate any excess capacities.

The previous four BRAC commissions, 1988, 1991, 1993 and 1995 resulted in closure or realignment of 152 major installations and 235 smaller installations. The recently completed 2005 BRAC

round recommendations affect over 800 locations, 25 major closures, 24 major realignments and about 765 lesser actions. The prior BRAC rounds, the General Accountability Office has reviewed those and has been very supportive of our way of methods of accounting for the savings, but the net present value as well as our annual savings.

I would say that the most successful example of the BRAC disposal process has been the Navy's sale of the former Marine Corps Air Station property at El Toro, which consisted of about 3,700 acres and netted about $649 million, which was done in partnership with our GSA colleagues and the local governments.

Along with transforming our military forces, the Department has been transforming its installations and business practices to include the management and disposal of vacant and unutilized space through a comprehensive asset management strategy, and we're beginning to see the results of that transformation.

Mr. Chairman, I appreciate the opportunity for addressing and appearing before this Subcommittee this morning. Thank you.

Senator COBURN. Thank you, Dr. Moy. Let me recognize Senator Carper. He's been a great partner this past year as we both try to work hard to identify waste and inefficiency within the Federal Government, recognize what it does well and give kudos to that, but also ask questions so that we can see more visibly the areas that need attending to. And I recognize him now for both a statement and to start our questioning.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Good. Thanks very much. Mr. Chairman, it's a pleasure being your partner in this effort, and I thank you for the chance to join you here today for a home game in the turf of Senator Obama. And Senator Obama, for those of you here in Chicago, is a great addition to the U.S. Senate. And I've only been there 5 years. In my experience, I've not seen anybody who hit the deck running and began making an impact, a very positive impact on both sides of the aisle, any more than Senator Obama. So we're just really pleased to be here in his home State that he represents.

Mr. Chairman, I have a statement for the record that I would like to offer. But I also want to make some comments in general first before I ask a few questions.

[The prepared statement of Senator Carper follows:]

Thank you, Mr. Chairman, for continuing this Subcommittee's efforts to examine the way in which agencies are managing their property.

Our constituents expect the Federal Government to have a presence where they live. They need access to a post office, to a VA hospital, or to an IRS help center. Communities change, however, and the way in which Federal agencies serve those communities changes as well. It's vitally important that agencies are able to adapt to these changes.

It's clear from the evidence before us, Mr. Chairman, that the poor management of the property controlled by the Federal Government is preventing agencies from serving the American people in the best, most efficient way possible. It's also wasting billions of dollars.

Today, as GAO will point out this morning, we have Federal agencies in many case working, and I quote, with "an infrastructure based on the business model and technological environment of the 1950s." This is unacceptable.

I don't know how much we spend in total each year to maintain vacant or underused Federal buildings, but I do know that every dollar the Postal Service spend to keep the building across the street standing is one dollar they can't spend to expand or improve service in growing parts of the country.

And when an employee in another agency goes to work every day in a old, dilapidated building without the technology he or she needs to be effective, I think we lose a little bit of the trust and confidence the people we serve place in our government.

I know all of the agencies here today will be testifying about steps they've taken to rid themselves of un-needed property and modernize the facilities they truly need. Addressing this problem piece by piece, however, is difficult. That's why it's important that the President and OMB continue their efforts to establish government-wide guidelines for the management of Federal property and help agencies develop the expertise necessary to achieve goals.

I believe our witnesses today represent the agencies that hold a majority of the vacant or under-used Federal property out there. I look forward to hearing more from them about what they're doing to address the Federal Government's property management challenges and what lessons we can apply to other agencies.

Thank you again, Mr. Chairman.

Senator CARPER. I'm going to go ahead and telegraph my questions now so that our witnesses, and we thank you each for being here, but I want to tell you what I'm going to start off by asking.

I'm going to start off by asking you to, really sort of a, each of you a three-part question. Mr. Goldstein, you may not be asked a three-part question given the fact that you're not with one of the agencies that's before us, but we appreciate very much the work that you and your colleagues at GAO do. But I'm interested in some of you sort of giving us some examples of, maybe a model that you think is worth emulating, something you've done particularly well in terms of managing or disposing of unused properties, underutilized properties in a way that enabled you to recapture some money for the Federal Government, for your agency. But I'm interested in best practices and I'm going to ask you to hold up a couple of examples. It could be, as Dr. Moy's talked about, El Toro, that sort of thing, but I'd be interested in that.

Second, some of the practices you're not so proud of, or situations that you feel that are really problematic, and that you are trying to get your arms around and trying to figure how to dispose of or better utilize an underutilized asset.

The third thing I'm going to ask you to do is to tell us what we can do. Not just the three of us, but the Senate, the House, and the executive branches. What can we do in terms of enabling you to better manage the properties that you're responsible for? To sell those which need to be sold, and to upgrade those which need to be upgraded, but just some good practical solutions if you will.

My colleagues, Senator Coburn and Senator Obama may have already mentioned this, but today is the day that the President submits his budget to the Congress. We expect a budget deficit to be forecast there, to be somewhere in the range of $300 to $400 billion. We are, in my view, we're swimming in a sea of red ink in this country. And what the combination of an enormous Federal budget deficits coupled with trade deficits almost twice as large, roughly $700 to $800 billion, it's just not sustainable.

The President calls for cutting the deficit in half, I think by 2009, but I believe that inherent in that forecast is a couple of assumptions which I'm not sure are credible. One is that we are not going to be spending any money in Iraq then, we're not going to be spending any money in Afghanistan then, and three is that I don't think that we will have fixed the problems that we have with the alternative minimum tax, which is going to be an expensive fix as we all know.

I think the truth of the matter is if we are going to begin making real progress on reducing our deficits, it has to be a broad, comprehensive approach. It just can't be surplus property or underutilized property, although that's important. It's got to include collecting the taxes that are owed. And Senator Coburn and I have had the first of a series of hearings that focus on all the money out there that's owed to the Federal Government, a couple hundred billion dollars, that's just not being collected.

We've had some hearings also on something called improper payments, and there's been a fair amount of focus on monies that are improperly paid with respect to the war in Iraq, with respect to Katrina and on the heels of Katrina. But it turns out there's probably $50 billion on top of that of improper payments. Mostly overpayments that some of us, GAO's been very helpful in this, our inspector generals are helpful in this, in trying to figure out where we are improperly paying money and how can we reduce that.

My own view is if we're going to make progress on the deficit, we've got to figure out how to, as the Iraqi's stand up militarily, how do we stand down and how do we realize some cost savings from doing that. And how do we get the other nations in the region to come in and backfill for us as we begin to reduce our presence there.

The President, in his State of the Union address last Tuesday, talked about entitlement programs, he talked about a Blue Ribbon commission as the boomers, some of us, get ready to move toward retirement age. How are we going to—what is the impact of the boomer retirement on Medicare, Social Security, Medicaid, and we look forward to the creation of a real bipartisan commission that will help us to begin to deal with those.

Another little program that I think has some real promise, and this is just an example. We've got to look everywhere for savings. And one of the places we're going to look is flood insurance. We have in our national flood insurance program some kind of a perverse incentive that encourages people to build in the most dangerous places, or are likely to have damage to their homes and with a program that's $10 to $20 billion in the red.

And finally, we got a lot of really good ideas out of GAO, and a lot of good ideas out of the inspector generals, and what we need to do is to be your partner in taking those good ideas, putting a spotlight on them, and making sure that we follow up.

And the last thing I would say is I would like to close before I ask you to respond to my three-part question, I just want to mention the theory of holes. The theory of holes, which was offered by Dennis Healy, former Exchequer over in Britain. Dennis Healy used to say that when you find yourself in a hole, stop digging. And we are in a hole, big hole, as a country fiscally. And I think as we consider tax cuts, further tax cuts to make, we have to keep in mind, particularly as we would propose to cut the taxes of those who, frankly, are doing pretty well, that we have to be careful not to dig the hole much bigger. We have to stop digging. And as we prepare to do all these other things to try to right our fiscal ship of state.

I want to go back to my three-part question, if I may. And I wanted to ask you again, if you'll recall, for each of you to give us

an example or two of the best practices that you're really proud of what you and your agency have done to better manage your properties, dispose of your properties, get some money back for the Treasury.

Two, a couple of examples, just be honest with us where you're disappointed with the results that you've gotten. Everything we do, everything I do, I know we can do better. And I'm sure the same is true for all of you.

And the last piece is what do we need to do, what laws, what regulations do we, either Congress or the Administration, need to change to enable you to think outside the box, to be creative, and end up with better and better results as we approach this area. And Mr. Matthews, since you are the closest one to me, I'm going to call on you to go first, and then we'll just head on down the line.

Mr. MATTHEWS. Thank you. In terms of best practices, there are a number. I specified one in my statement about the use of internet auctions and public outcry auctions. We're consistently having excellent results when we bring the commercial, our commercial advisors in to help us market. This is after we've gotten past the public benefit conveyance and the community involvement, properties we actually sell. We found consistently that the better we can expose those properties to the market using the best commercial practices, the better success we have.

Public outcry auctions work well. Internet auctions work equally well or better and have a lower cost.

Senator CARPER. Explain the difference between the two.

Mr. MATTHEWS. A public outcry auction, for example, using the building next door you just toured, if they conducted a public outcry auction we'd have a contract appraiser who would come in and heavily publicize the sale of the building and actually conduct a live auction right there on the spot. It does tend to have fairly high administrative costs, but they're very effective. And the better they're exposed to the public and the market, the better the results.

You can do the same thing on the internet by publicizing and reaching out to actually bigger market than the local markets. And consistently when that is done and allowed to have a soft close so that it closes at about this day, but we may leave it open 24 or 36 hours beyond that point, we're finding we attract investors from all over the country. Not just from all over the metropolitan, or geographic area.

Senator CARPER. How long have you been doing the internet auctions?

Mr. MATTHEWS. For about the last 3 years, and there is some disagreement among our stakeholders as what's the best way to do that, and whether or not the public outcry auction is better than internet. I would never advocate that we only do that or that we never have sealed bid. There are some properties where it's small properties and it probably is best marketed to local people in the community. But for the bigger, more commercially valuable properties, the public outcry, or even better, the internet auction seems to generate very good returns, well above what our estimates are.

Senator CARPER. Give me an example of a practice or a procedure, or maybe a property where you're not pleased with what's going on, maybe disappointed with what's going on, and maybe it's

even something where we ought to be involved changing rules and regulations or statutes that would enable you to turn that around. Anything come to mind? It doesn't have to be one example, it could be like a series of them.

Mr. MATTHEWS. Well, I'll give you a good practical example. For the last few years, we have, regardless of whether we got to keep the proceeds, we decided we're going to let go of what doesn't serve a good Federal continuing need. And the easy ones, the vacant ones, and the ones that clearly nobody has an objection to are leaving the inventory fairly rapidly by our standards. But now we're getting into properties that are still partially occupied and still serving some degree of Federal ongoing program need.

For example, in Clearfield, Utah we have two large warehouses, at one time served a number of Federal agencies. Right now the primary tenant is the IRS who, in Ogden, Utah, has a big processing center. And this is their warehouse and forms distribution operation in these two warehouses. As the other tenants have left, we found ourselves with half of one building and a quarter of the other building. Together we could have about filled up one building, but the costs of moving everybody out of the other one into the other is pretty staggering.

And we've allowed that discussion to drag on too long because we haven't engaged with the customer enough to talk through their long term needs and whether they're realistic about what the cost would be, whether they even need to be engaged in warehousing opportunities anymore. And we've been reluctant to spend our own limited capital to move and consolidate. This cost could be as much as a million dollars.

Senator CARPER. Now that's not one that we need to fix. That's one that you all need to fix, right?

Mr. MATTHEWS. That's an example of where lack of compelling incentives caused us to be slow to make up our mind what's best to do. And I'm neither picking on the occupant customer, and I'm not trying to be overly critical on us. They're hard decisions to make, because they involve alternate——

Senator CARPER. Give us an example, if you will, before we call on Mr. Sullivan, give us an example of something we need to do differently in order that you can be more successful.

Mr. MATTHEWS. First, I think the most compelling thing that Congress can do is to make sure that every Federal agency can retain the net proceeds for continued reinvestment in the existing inventory. The biggest deterrent I have seen both within my own agency and with other land holding agencies that we serve, is the sometimes punitive effect of deciding to do the right thing. And how taking a property that may have been in the inventory a long time, it may have environmental remediation, it may have historic value, it may be of strong interest to community interest groups or community elected officials. It takes a lot of money to do the due diligence. Sometimes it takes a lot of money to clean up the environmental problems to a level appropriate to satisfy the State regulators. And then it takes a while to work through the issues with a community.

If at the end of that all the costs go to the program that holds the property and none of the benefits, the marginal cost of holding

that property is not very painful to endure as opposed to taking on all those costs in a long process that sometimes is painful and difficult. So that positive incentive is just critical to your success.

Senator CARPER. I get you.

Mr. MATTHEWS. There's one other thing, if I may?

Senator CARPER. Yes. Sure.

Mr. MATTHEWS. There's a whole web of disposal authorities and associated environmental and historic preservation and other laws that were all written for great public purposes. I wouldn't suggest we repeal any of them, but there are points in the law where they're not clear. They don't have time limits. It's not always specified who does what function. And they're not insuperable obstacles. We can always find a way to dispose of the property and work our way through the process. But since there's so many overlapping laws and authorities, it may be time to re-engineer and look at the whole web of related legal requirements that we have to contend with that with just minor tweaks here and there might speed the process for everybody.

Senator CARPER. OK, thank you. Mr. Chairman, I'm going to be mindful of the time, and I'd be happy to hold off until maybe second round, but I'm going to ask the same question of each of the other witnesses.

Senator COBURN. OK. Senator Obama.

Senator OBAMA. Well, thank you very much gentlemen for your presentations. I found them illuminating. Mr. Samra, let me start with you. I don't want to get bogged down with the particular property that was the subject of the tour this morning. My understanding is that there are some ongoing negotiations that have been taking place. I am curious to find out whether there's any time frame whatsoever in terms of whether the negotiations on the disposal of that property might be completed.

Mr. SAMRA. Thank you, Senator. We are really very anxious to have a very short time line for negotiations, but again, the magnitude and complexity of this deal and stakeholders that have interest in this prevent me from giving you an exact time line. But we are very positive about the third and current proposal that we have today with this property. I met with the Planning Commissioner of the City of Chicago 2 weeks ago, and we're going to have another meeting this week, and I think we are very close to coming up with the right solution for everybody.

Senator OBAMA. Good. Well, I would just emphasize obviously this has been sitting for a long time. And I think my constituents, the City of Chicago has a deep concern in making sure that we're utilizing a property that is admittedly a little bit outdated, but continues to be on a prime site. And my hope would be that you working with the city and others can get this dealt with as quickly as possible. And if you need help from my office, please let me know. But I think for it to be sitting there for years and to be spending the amount of money that's being spent just maintaining it doesn't make too much sense. So I'd like to emphasize that.

Let me shift to a broader point. And I thought that Senator Carper asked an excellent question about what laws we might change to improve all of you doing your tasks. I know that there has been some question, Mr. Goldstein, I think you mentioned it, in terms

of the difficulty of getting the right balance between leasing and purchasing. I'm curious as to are there laws on the books that we could change that would make sure that you are, that all these offices are operating at an optimal level when it comes to the right mix of leasing and purchasing land?

Mr. GOLDSTEIN. Senator, I think there are a number of things. In fact, this Subcommittee held a hearing last fall that explored these at some length. But it's clear that the current structure of the budget laws do hamper agencies, and do hamper the government in being able to effectively and efficiently deal with its property issues because of the up front scoring that's required. And I know Senator Coburn mentioned this this morning. That's one of the biggest issues that hampers agencies. There are many others, and Mr. Matthews referred to some of them. I think some combination of flexibility and greater coordination is needed. Flexibility with respect to the ability of agencies to retain net proceeds from its sales and disposals would be helpful.

Senator OBAMA. How does it currently work? It all just goes back to, let's say you get net proceeds from one of these agencies. Let's say one of the agencies that is, Mr. Matthews from GSA, obtaining property from GSA. How does that work?

Mr. GOLDSTEIN. Well, several agencies have the authority to retain proceeds. VA does. DOD does to some extent. GSA did in the last fiscal year.

Senator OBAMA. Is that statutory or is that just internal policy?

Mr. GOLDSTEIN. That is, those are statutory.

Senator OBAMA. OK.

Mr. GOLDSTEIN. And they're able to retain proceeds, net the cost of disposal itself in order to, and it varies agency by agency, it doesn't all work exactly the same way. It depends on the statutes for each. But they're able to retain some of those proceeds for dealing with other properties, for repairing, for alteration, and for a variety of other purposes to improve the properties.

And this is another one of the major issues that the government has beyond having issues with respect to the leasing problem that we've mentioned as well as to vacant property, is the vast backlog in deteriorated property and the amount of money that agencies have said it will take to fix existing properties that it wants to retain, and those are in the tens of billions of dollars.

Senator OBAMA. And how are we going about sorting through all that? And I don't know whether that's best directed at you or Mr. Matthews, or the other agency heads, but what are we doing about deteriorating properties?

Mr. GOLDSTEIN. It's one of the issues that the Federal Real Property Council is working through. One of the things that GAO has suggested over the years is that the government, and I mentioned in my testimony this morning, create a transformation plan that would bring together a lot of different stakeholders to deal with a variety of problems, because many of these problems are interrelated. If you can get rid of some of the vacant property and use those proceeds to fix properties. If you could reduce the overall costs from leasing and be able to own property. If you could find ways to limit problems associated with the environmental restoration or historic preservation, all the various things that we have.

The problem in knowing exactly what properties the government does own, and what condition they are, and how secure they are in, and having all of this information available and useful so the government can strategically deal at an over-arching level with its real property portfolio. That would be very helpful. It's all interrelated.

Senator OBAMA. Let me turn to some of the other panelists. The issue of environmental clean up or containment issues has come up. You say that's part of the issue that's been holding up some sort of solution to the Post Office property here in Chicago. Do all the agencies, as soon as they have identified a property for disposal, do their own environmental assessment? In the case of these auctions that you mentioned, whether it's through the internet or, what was it, public cry auction?

Mr. MATTHEWS. Outcry.

Senator OBAMA. Outcry auction. Have those environmental assessments already been done, or are often times you putting properties up for sale in a caveat emptor, buyer beware situation? How do the agencies handle that?

Mr. MATTHEWS. We try to find out long before we get to the point of disposal and document our properties which have environmental liabilities, which can range from relatively modest, easily fixed problems to extremely difficult challenges.

Senator OBAMA. Right. So it might be lead paint, it might be asbestos, or it might be storage tanks or——

Mr. MATTHEWS. Right.

Senator OBAMA [continuing]. Serious ground contamination that would be much more costly to deal with.

Mr. MATTHEWS. And there are options now that didn't used to be available. If we have well documented issues sometimes we can sell them with those disclosed and subject to the State regulators cleaning it up to whatever level they think that the new owner will take it to within zoning and land use restrictions. It's better than it used to be. It's easier.

To go back just a little bit to your previous question before you got into environmental, I'll give you a good example of how this comes up is a GSA property in Buffalo, New York. It's about a 300,000 square foot multi-tenant Federal building. It's built in the 1960's. It's full of asbestos. It has a huge reinvestment liability. It passed it's 30-year life cycle for replacing elevators.

We looked at the continuing customer need, which remained unchanged, and we looked at the market alternative, which was leasing. And in the City of Buffalo, there was lots of excellent space at a very reasonable rate. We decided to sell that building, move everybody to lease space. Their rent didn't go up and we avoided a couple hundred million dollars in reinvestment. And before we've even gotten through the disposal process, we've found that there's a remarkable degree of interest in people who want to redevelop that property.

Senator OBAMA. So that's a good story.

Mr. MATTHEWS. That's a good story and it shows that there is some flexibility. You don't have to fix every single environmental issue every time.

Senator OBAMA. Right. OK. And gentlemen, anything you want to add on this issue of either environmental clean up or the broader questions that I posed earlier?

Mr. SAMRA. First let me thank you for extending the offer of helping us with the existing building in the Postal Service. We, at the Postal Service, have a full time department that deals with environmental issues in our buildings. Any issue that we determine that we have to deal with it immediately, deal with it immediately. Everything is done and finished with it. However, for the facilities or properties that become surplus, as you know, some of the asbestos and paint, you can keep them. They're encapsulated. If the new user of the building can use the building without disturbing that. So we disclose the information to them, and if, depending on what the user wants to do with it.

Senator OBAMA. OK.

Dr. MOY. Senator, there's a couple of ways I want to answer your question. One is in terms of the environmental clean up, restoration. Of course, with a process as involved as the Base Realignment and Closure Act, every time we close a base or realigning to a new location of major troops, we go through the National Environmental Policy Act, and the process to determine what the impact is. So we work in conjunction with the local regulatory, the local governments to make sure that whatever new use is taking over that, that what we turn over is compatible with what's coming up.

I had mentioned we'd gone through some extensive demolition, forecasting what our demolition requirements are of vacant underutilized spaces. Those are usually within our internal, within the fence line, and we make sure that we take the proper precautions. If we have lead paint or asbestos, that we are following all the necessary requirements, but we do go ahead and execute the demolition as program.

In regards to best practices, I think one of the things I would come back to is we look at the infrastructure management as a big business in the Department of Defense. You can just look at our inventory. And so one of the things that we did early on was look at large companies, private companies, and see what practices they follow in terms of investments, in terms of financing, in terms of their disposal, their public works practices. So what we try to find is what their best practices we can adopt in the Department of Defense.

One of the things that we have found to be a problem in the past was we were never able to find out or come to a conclusion, and in competing with the weapons systems and the manpower, what was the cost of operating our infrastructure. Well, based on using industry standards and what our models are in terms of sustainment, operation and maintenance, recapitalization for restoration and modernization, we've been able to come up with pretty clearly what the forecasting requirements are to support our infrastructure in the Department of Defense. It's still a leadership decision to decide what investments to make, but at least the leadership knows what the requirements are needed to invest to make sure that we have the assets that are supporting the operational forces in our mission.

Senator OBAMA. Well let me, since I'm a guest of this Subcommittee, let me not overstay my welcome. Mr. Chairman?

Senator COBURN. We'll come back for another round.

Senator OBAMA. If we have another round, I'll be able to ask Mr. Goldstein.

Senator COBURN. Yes, we will. Let me ask Mr. Goldstein. Right now, if the American public wanted to go on line, could they find anywhere on line, other than security related or national security related issues, could they find any one place where they can find every piece of property the Federal Government owns?

Mr. GOLDSTEIN. Not that I'm aware of sir.

Senator COBURN. And could anybody in the Federal Government find that?

Mr. GOLDSTEIN. Not that I'm aware of.

Senator COBURN. And why is that?

Mr. GOLDSTEIN. Well, I think there's a couple of reasons. When GAO issued its first report and put this issue on the high-risk list several years ago, we said that there had been no progress. There was no central focus looking at property management and the portfolio. That has changed obviously, and you've alluded to some of that. There is work ongoing on trying to improve the worldwide inventory and to understand what it is that the government owns, and what condition it's in, how secure it is, and how old it is and all those kinds of things. But it takes a while. And as the Defense Department has indicated when it tried to do the last round of BRAC, it wasn't able to do as much as it could, or could not do it as quickly as it wanted to because it lacked some of that central data.

Senator COBURN. So it's going to be 2½ years for the Defense Department to even know what they have, essentially. Correct?

Dr. MOY. Sir, we're hoping to have by September 2006, the inventory of what underutilized and vacant space we have on hand. And keep that in a little bit more ongoing basis.

Senator COBURN. Right. But the executive order that was issued in February 2004 requested that all the agencies by the end of this last year, fiscal year, report into the Real Property Committee so that we could get a handle on it. So it's important for people to know, we don't have transparency within the Federal Government, so that you all could transfer information, if you might be able to trade sites. And we certainly don't have the accountability if we don't have the information. And those are the things that we're trying to get. Part of that is because we've set it up.

GSA put this booklet out, and it's very revealing because it talks about CERCLA and NEPA, and all the different contaminants and everything that has to go through, all the different things that have to be looked at just in terms of our environmental assessment before you can even consider looking at an excess property.

So I think what one of the things that we want to try to focus on is when do you think, in terms of your agencies, are we going to be able to have a consistent, yearly update of what the real properties are, what the conditions of the real properties are, what the excess properties are, the underutilized properties are, and those properties that are at risk from an environmental standpoint or otherwise. Anybody want to answer that? Go ahead, Mr. Samra.

Mr. SAMRA. OK. Thank you. As I mentioned before, the process that we have at the Postal Service is really very effective. Having spent 30 years out in the private industry, I would say this is one of the best programs I've seen. We have a database for every facility that we own. We have a database that tells us every facility that we lease, when the lease expires and when we need to renew it. We also have a database that keeps track of every surplus property that we own.

Senator COBURN. So the Postal Service knows what it has.

Mr. SAMRA. Absolutely.

Senator COBURN. It's available.

Mr. SAMRA. Absolutely.

Senator COBURN. And it can be utilized.

Mr. SAMRA. Yes.

Senator COBURN. All right. Mr. Sullivan.

Mr. SULLIVAN. Yes, Mr. Chairman. The Department of Veterans Affairs has a complete database. We can tell you how many leases down to the square foot we have anywhere in the country. As of last week, we had over 1,100 leases. We had 146 million square feet that we own. We can tell you based upon the latest guidance from the Federal Real Property Council, not only how many buildings, acres, how many flagpole structures, and even in our case, historic properties that have been designated.

What we're trying to move, which is the next step is, now that we know what we own, how much it's costing us, we have our strategic plan, if you will, for CARES, which is where we want to be in 2012 and 2022, is saying here's our current assets. Here's our plan. What do we do to shift from one to the next. And that's what we're working on very diligently now.

Senator COBURN. Is anybody surprised that in 2006, that we have two of the 20 agencies that have land, real property who really know, GSA knows, and I'll given them credit. They know a lot about what they have, but it's through multiple agencies. Is anybody surprised that it's 2006 before we're finding this, a management practice that should have been instituted long ago? Is anybody surprised at that? And if you're not surprised, why aren't you surprised?

Mr. GOLDSTEIN. Mr. Chairman, I think it's something that does take a long time to understand. As we've all said this morning, the government owns a staggering amount of property in every major city and many rural parts of the country. And for many years, the government did not pay terribly close attention to this problem. There were other pressing problems, I suppose. I would give the government some credit today. It is moving in the right direction.

Senator COBURN. Right.

Mr. GOLDSTEIN. But probably not fast enough. And as I've indicated, there is more that needs to be done. GAO this year will reevaluate whether or not Federal property would still remain on this high-risk list and we will go out and examine the implementation of the executive order, and we'll work with the Federal Real Property Council and really try to determine whether the kinds of things agencies are doing are sufficiently successful and what more needs to be done. So we will, in January, be able to update our work in this area.

Senator COBURN. I think that's a very important point, because we've seen a tremendous movement in several agencies and we've seen a tremendous collection of data. The important thing is to be able to utilize that data to save the American taxpayer money, and to more efficiently spend the money that we're going to spend on that. The FRPC, the Federal Real Property Council, does that meet monthly or quarterly?

Mr. MATTHEWS. There's not an exact requirement. Generally the full committee meets quarterly, and there are a number of subcommittees that deal with various aspects of asset management that meet monthly or every other month.

Senator COBURN. OK. As many of you know, last October the House Government Reform Committee passed out and improved a bill called the Federal Real Property Disposal Pilot Program and Management Improvement Act. And the whole purpose behind that is to expedite the disposal of Federal excess, surplus, and underperforming real properties, for 5 years to look at that. The bill would also codify the Federal Real Property Council. Is that a good start? Any comments on that, positive, negatively?

Mr. GOLDSTEIN. Mr. Chairman, we testified at that, at the hearings for that particular legislation. My boss, Controller General, was GAO's witness. And at that time, we felt that it would be useful. We supported it. We supported the fact that any experimentations and pilot projects would probably be very helpful. It was only dealing with a small portion of the government's portfolio, but given where we are with property issues, we felt that it would be helpful. Our sort of one caveat at the time, was that it obviously would need some pretty strong Congressional oversight, and then we recommended that hearings on it be held regularly, because these were sort of experimental approaches and how proceeds would be distributed. But we were generally supportive.

Senator COBURN. All right. Senator Carper.

Senator CARPER. Thanks, Mr. Chairman. I want to go back and amend my earlier question just a little bit. And the Chairman was just asking a question about why is it taking us so long to put together in a manageable form the data involving property that we own or lease. And why don't we do a better job of utilizing that data.

I think part of it, and a couple of our witnesses have alluded to this, deals with the incentives that we provide for agencies to dispose of property. And whether or not they actually dispose of the property, do they actually realize any benefit from that disposition. I think I heard Mr. Sullivan mention earlier that the VA has the ability of when you dispose of a property or assets, that you don't need any more, that you actually get some benefit from the disposition of those assets. I see that as maybe a best practice. And I'd like for you to just take a minute and talk with us about that.

Mr. SULLIVAN. Sure. We have an authority which is called the Public Private Venture Authority. And we think we've had a lot of success in using that to take pieces of unused property or buildings, working with private or for not-for-profit developers and coming back with a use for that building which would provide a service to veterans and provide additional cash flow back to the VA and put those properties back on the tax rolls. I think in all of this, we

need to find a win-win that's going to work for the localities and work for the Federal agencies to provide the incentives and also some incentive for the locality. And in many cases we have found that to be particularly helpful.

In Lakeside here in Chicago, we just finished doing a deal where we had three hospitals in Chicago. We went through all the processes that says, we don't need three. Everybody knows that, so when we got it down, we decided to surplus one of the hospitals. There we entered in an Enhanced-Use Lease with Northwestern Memorial, which is a local hospital here, to lease it to them for $22 million. Subsequent to that lease, we then moved to dispose of it for another $28 million, and we just signed that this January. So in that case, it works very well for the people here. It works very well for VA. We're getting $50 million back in services and in cash to VA.

Another example we're particularly proud of is in Leavenworth, Kansas. We had about 50 or 60 acres out there that we had all buildings on it. We were still paying to maintain them. We needed to get rid of them. We had to deal with the needs of the historic folks, because all of these properties had historic designations. It was listed as the No. 1 property in danger on the National Historic Register. So we worked with our Public Private Venture and got a non-profit developer to come in, deal with the historic issues, renovate some of those facilities which under the lease he is going to. We're going to provide homeless services, transitional housing. We're also going to free up about 50 acres of land, because we have a cemetery next door that is out of land. So it will be a way to give VA the land, give the developer and some of the folks locally what they need, and have a significant reduction in the amount of money VA has to spend.

So I think it has to be not one size fits all here. The more tools that we can have to find ways, and I would encourage anything innovative, to bring back, value back to the government from underutilized properties is what we need to aim for.

Senator COBURN. Yes. Are there other agencies that are seeking that same authority that you have at the VA?

Senator CARPER. Or, our GSA friends, or GAO may be aware of this.

Mr. MATTHEWS. GSA has several times sought similar variations on the authorities available. That gets back to what I mentioned earlier. There's a whole web of archaic laws and regulations involving the use of real estate, reinvestment in real estate, and it would be nice to have a standard that we could all use. I'd love to have the tools in his toolbox.

Senator CARPER. I think there's something to this.

Senator COBURN. The interesting thing is, is why isn't there the same standard across all the government agencies?

Mr. MATTHEWS. The government's been in the real estate business since the founding of the republic. And for most of that first 200 years the emphasis had been on acquiring for specific purpose, postal, defense, and other public purposes that have come into being at different points of time with different rules and regulations.

Only in the last 15 or 20 years has there been a growing sense that there's so much real estate that we need a more focused, disciplined attention to asset management. And most agencies are responding pretty positively to do that for their own reasons, and with encouragement from stakeholders like yourself. But we've not had, that I'm aware of, a single legislative mandate for portfolio and asset management, some broad governing principles that apply to all of us. It's always been built around programmatic needs of the particular agencies that are holding the real estate.

Senator CARPER. I think part of it is VA, we know that traditionally or historically we've underfunded a lot of cases. VA needed healthcare for veterans. And this is, by virtue of giving VA the ability to retain the money from the disposal of the assets it helps them to limit their shortfall.

Mr. SULLIVAN. One of the best features of it, at least in our views, is not only money, but you can get in-kind consideration in terms of services or facilities or space back. Because in many cases it may be much easier for the private sector to be able to give us space, or to give us services back rather than cash. And that flexibility opens many doors on your ability to get rid of properties if you don't have to have the cash in hand up front. And in many cases, we provide homeless services which are a big issue for us, and it allows us to be able to get those services and facilities there which otherwise we would have to use appropriated dollars for. And so it's a win-win for everyone.

Senator CARPER. Wouldn't it be amazing, and I say this to my colleagues, wouldn't it be amazing if the VA not only turned out to be sort of model here for us in the way that we handle the disposition or disposal of assets and land and buildings as it was, but also a model with respect to the way that we handle the procurement of medications for our veterans, and also a model for the way we harness information technology to provide electronic health records for folks. It's just very interesting. My time's about expired. I'm going to ask Dr. Moy if you would respond to my earlier question, just for the record, please. If you would, that would be great.

And I have a somewhat different question for Mr. Samra. I'd ask you to respond to my first question for the record, especially looking for what are the things that we're doing we need to do differently; Congress, the Administration, regulation, executive action, legislation, that would enable us to use a little more common sense and get to a better practical solution.

Mr. Samra, this falls in the category that all politics is local. And what I want to do is ask you a question, just as there's interest here in Chicago about the vacant postal production facility, I have a similar kind of question I'd like to ask you about that relates to the Delaware Valley, Philadelphia, and Delaware.

A couple of years ago, President Bush put together a commission to study the Postal Service. And he found that the Postal Service had, I believe, more processing capacity than was believed to be needed. The commission also found that processing productivity often varies from plant to plant because the Postal Service is still using some older facilities that often can't fully accommodate the newest state-of-the-art processing equipment.

I know that the Postal Service is currently building a brand new single story processing facility just outside of Philadelphia, and my question is this. If you can answer it fine, if you can't just answer it for the record, but if you can answer it here that would be great. A question about this processing facility that's being built just outside of Philadelphia, which we consider a suburb of Wilmington, Delaware. Is this facility the model for what the Postal Service would like to do around the country? And second, what does a facility like the new one in Philadelphia allow the Postal Service to do with respect to cutting costs and finding efficiencies?

Mr. SAMRA. Thank you, Senator. Let me start by answering the first question. The nature of the Postal Service, which is run like a private business not like a government agency, our model that I said before has been very effective. The main reason for that, because it's a proactive model, it allows us to know about the property that's coming, to become a surplus way before it becomes a surplus. So we have the chance to go out to market it, have our plan together, and the example I gave you about Memphis where the deal is done and finished 8 months before we even vacate the property, so it will transfer immediately to the owner without the Postal Service paying a penny for getting it as a vacant property.

And the other success story that we can tell is out of 34,500 facilities that we own and lease, only 44 properties are surplus and half of them are already committed.

Senator CARPER. That's a pretty good record.

Mr. SAMRA. Thank you, Senator. As for Philadelphia, I said before I've been here for 2 months only at the Postal Service. I'm not familiar with every facility that they have.

Senator CARPER. How come?

Mr. SAMRA. I'm working on it, Senator. But the Postal Service is moving very efficiently in using technology. And the real reason of changing facilities in the Postal Service, and the Postal Service in Chicago is because of the new technology that we are putting in place. And the new technology is raising the value of our service very high to levels that we have not seen before. And they are decreasing our cost. And a good example of that is 100,000 less people work at the Postal Service today than it used to be before.

Senator CARPER. If you will, Mr. Samra, I appreciate the fact that you're still pretty new on the job, but I really would like you to answer on the record the questions. Is the new facility being built in Philadelphia, is this facility the model for what the Postal Service wants to do around the country? And what does a facility like the new one in Philadelphia allow the Postal Service to do with respect to cutting costs and dealing with inefficiencies? So, if you could answer that one for me on the record later on in writing, that would be much appreciated.

Mr. SAMRA. I'll be happy to.

Senator CARPER. All right. Thanks. Thanks, Mr. Chairman.

Senator COBURN. Senator Obama.

Senator OBAMA. Thank you, Mr. Chairman. I just want to finish up on a couple of specifics, just so I get a sense of how time frames are, what kind of time frames we're talking about, generally, with some of these properties. Do we keep track of what the average length of time it takes to dispose of properties once it's designated

for disposal? Is that, Mr. Samra, you're shaking your head. You want to talk about that for a second?

Mr. SAMRA. Yes. We keep track, as I said, from when it becomes available and when we dispose of it. Our average for our surplus property from 1997 to now is about 1 year.

Senator OBAMA. About 1 year.

Mr. SAMRA. About 1 year on the market.

Senator OBAMA. OK. And do the other agencies keep track of it in the same way, and is that about the same time frame for most of those?

Mr. MATTHEWS. Yes, sir. GSA does, and for the typical property that's not on the extreme, a year is about right for us too.

Mr. SULLIVAN. All of our disposal properties that we've done recently that haven't been Public Private Ventures are handled, in most cases, by GSA.

Senator OBAMA. OK.

Dr. MOY. From the perspective of the Department of Defense, when we dispose of a property it's not disposing of individual buildings. In some cases, it's disposing of a large installation, a small installation, and sometimes it can take up to 4, 5, or 6 years.

Senator OBAMA. Right.

Dr. MOY. This current round of BRAC 2005, we have statutorily mandated 6 years to execute.

Senator OBAMA. OK. While I was out of the room, did you have a chance to ask about this statistic which I think is pretty interesting. Since I'm on the topic, Mr. Moy, on this graphic, "Amount DOD Spends per Active Duty Soldier Annually," maintaining buildings it does not need, $2,000 to $3,000 per active duty soldier. I don't know if you agree with that statistic or not. If you do, it's pretty powerful and would suggest that we can do better, since $2,000 to $3,000 per active soldier conceivably could be used to do a better job with body armour and so forth.

So first of all, do you agree with a calculation like that. Second, do you think that this calculation excludes the latest BRAC rounds, and do you feel like that number would go down once some of the installations that were identified in BRAC went forward?

Dr. MOY. Sir, this is the first time I've seen that graphic and that figure.

Senator OBAMA. So it would be hard off the top of your head to know whether it was accurate or not?

Dr. MOY. Yes sir. During this past year we kept a firewall between my operation, which was supporting the operational bases, and we considered everything to be operational until the time the base realignment and closure commission had made their announcement. It very well may have been a figure that came from the BRAC side of the House.

Senator OBAMA. OK.

Senator COBURN. This came from DOD. Last year they estimated between $3 and $4 billion per year in maintenance of buildings they don't need.

Dr. MOY. I would say that's probably taken care of. Once we close those bases down or excess them, or rely on our forces it will dramatically make a change to that.

Senator OBAMA. Right. Well, obviously that's a powerful statistic and I think it's something that would bear looking at. In between BRAC rounds, I assume that there is still some process whereby installations or properties may or may not be disposed of, or does all of it get funneled through BRAC?

Dr. MOY. Sir, the BRAC legislation has a specific threshold for when it triggers a BRAC action, usually 300 civilians or more that are being moved or closed.

Senator OBAMA. OK. So short of that——

Dr. MOY. Short of that, we do have capabilities. As I mentioned earlier in my testimony, when we have a piece of property or land or building that we consider as excess or is vacant, and we have found that there is no military need in the Department for that, we turn it over, we declare and turn it over to the General Service Administration for disposal.

Senator OBAMA. OK. Just two more questions, and I think that they've already been touched on by Senator Coburn, but I guess I want to reiterate these. One, can we say with confidence that each of your agencies, if it doesn't already possess it, is on track to making information about these disposable properties available in an easy to use fashion to the public, through the internet and web sites? And I don't know if this does or does not apply with respect to DOD, but I see no reason why it wouldn't.

Dr. MOY. Sir, I would characterize that in two parts. One is we are, I guess every part of our fiber is focused on executing the BRAC recommendations. And so as we go through the process and find out what the best way of that with the local redevelopment authorities, with the local governments, we will proceed with that. I think there is an e-government initiative for the Federal Government in which we're working with GSA, in terms of where we have excess property or Federal asset sales, we are working with GSA to put those properties up on the internet.

Senator OBAMA. Is GSA coordinating the efforts by these other agencies? I think Senator Coburn's question was right on target, which was why there might not be a single site. If I'm somebody who's interested in real estate, who's a developer and might be interested in underutilized properties, that I don't have to wade through reams of paper, but can just go on and see, OK, here's a list of 3,000 sites that are readily available. Here are the environmental issues that may be involved in them, here are historical landmark issues that might need to be resolved, here is the contact number that can allow me to get more information.

Mr. SULLIVAN. So you're talking about properties that are in the disposal process, that are ones that we want to make available to developers?

Senator OBAMA. Right.

Mr. SULLIVAN. There was a Federal asset sales and e-government initiative as Dr. Moy referred, that allows you to come into the FirstGov website to a page that talks about real estate opportunities, and then you can select commercial properties and all the properties that GSA has listed can be found there with a lot of detailed information about each property. If you choose housing, you can go to the HUD website and it will list the houses.

Senator OBAMA. So this does exist, or doesn't? I was confused.

Mr. SULLIVAN. This does exist.

Senator OBAMA. I thought when Senator Coburn asked the question there was some hesitation.

Mr. SULLIVAN. These are for properties that have already been, we've decided to dispose. They've been turned over by the holding agency for disposal either by GSA, or if they're farms, agriculture, or housing, HUD.

Senator OBAMA. OK.

Mr. SULLIVAN. I would not suggest that is 100 percent.

Senator COBURN. But it's not the U.S. Post Office Department, and it's not the VA in the same group, unless it's one they haven't done.

Senator OBAMA. OK. So it's not consolidated?

Senator COBURN. Yes.

Mr. SULLIVAN. No. It's a new initiative and it's gradually increasing to other agencies as they see fit to list——

Senator OBAMA. It seems like a very simple step to take, would just be to consolidate them. This doesn't sound like it would either be particularly—if each of you are already maintaining these databases separately, just making certain, particularly given what you're telling me which is, is these outcry auctions or internet auctions are already working very well. It seems that there's interest there. That's a tool that people are going to be using, and to the extent that we can make it one-stop shopping, I think that would be best.

Senator COBURN. Let me ask a question. Every piece of property that either the VA or the U.S. Postal Service, the Defense Department, doesn't trade or barter or negotiate or something, it goes out for excess. From every other agency, does it come through GSA?

Mr. SULLIVAN. No, sir.

Senator COBURN. Every piece of property?

Mr. SULLIVAN. It does not.

Senator COBURN. No. And there's the problem. We have no one way that anybody is following all the excess property in this country. And I believe the executive order that President Bush issued in February 2004 mandated GSA, in combination with OMB, to recommend legislative changes that we can make to make this come into fruition. Is that not correct, Mr. Matthews?

Mr. MATTHEWS. I'm not familiar with the legislative mandate. We have worked very hard with the worldwide inventory.

Senator COBURN. I promise you that it's in there.

Mr. MATTHEWS. OK.

Senator COBURN. And we're going to be expecting the recommended legislative changes from GSA in regard to that.

Let me follow up with a couple of other things. Dr. Moy, you all got rid of 86 million square feet of excess space. Correct?

Dr. MOY. Yes, sir.

Senator COBURN. How much did you add?

Dr. MOY. Over that time frame, I couldn't give you a number.

Senator COBURN. Well, I think that's an important question. Eighty-six million is a lot of square footage, but if you added 100 million, I'm not real impressed with it in terms of whether or not we're downsizing and becoming more efficient. So it's important that we see both sides of that.

Mr. Goldstein, are you familiar at all with the number of square footage that was added by the Defense Department in that same period of time?

Mr. GOLDSTEIN. I'm not, Mr. Chairman. We could certainly try to add something to the record for you.

Senator COBURN. That would be an interesting thing, because the other thing, I want to go back for a minute. The American public deserves better value when it comes to leasing. And part of the recommendations that come from you at GSA has got to be budget process change where we have, we can make better decisions through lease purchase than pure lease. We lose the appreciation value of the properties and they cost us more when we purely, on a service lease arrangement. Does anybody know of any lease purchase agreements in any of your agencies in the last 2 years?

Mr. MATTHEWS. We have none.

Senator COBURN. None. Isn't that interesting? We've bought all, we've signed all these new leases, we have hundreds of thousands of leases, 10,000 to 20,000 new leases a year, and not one of them is a lease purchase agreement where the taxpayers of this country get more value? Mr. Samra.

Mr. SAMRA. Yes. The Postal Service, Senator, every facility that we acquire we run a lease versus purchase financial study, and most of the time, anything over 10,000 square feet, we do own it. We own 80 percent of all square footage. And in the cases when we lease, most of the time we negotiate the lease purchase agreements.

Senator COBURN. OK. So the Post Office is one exception within the Federal Government that is still doing lease purchase. And part of that has to be is because they have some business requirements on them now in terms of competitiveness that they didn't have before. But I think that's an important thing. We need the recommendations back from you all saying, you've got to change the budget process because if somebody makes a good decision for our grandchildren, they can't be penalized in the year they make that decision by charging the entire lease against their budget that year. And so that needs to come back from you. It needs to come from the Defense Department, GSA and GAO.

A couple other things and then we'll finish up. We will be submitting to each of you written questions that we'd like for you to try to get back with us in 2 weeks, if you could, 2 to 3 weeks, so that we can follow this up.

Dr. Moy, I wanted to ask again, what do you think the cost is per maintenance of these properties that need to be disposed of are now, per year? Do you have any idea? Was it your testimony that you didn't know what that cost is now by the Defense Department?

Dr. MOY. No, sir. I do not.

Senator COBURN. OK. Thank you. And we'll be asking you to try to look at that. And this is for Mr. Matthews again. Your testimony, one-third of the GSA assets that have been accepted for disposal, what's the actual length of time, if you averaged out, once you put something on the disposal list, what's the average length of time it takes, from the time it hits the list to the time it's off and disposed of?

Mr. MATTHEWS. About two-thirds of a year on average. The really big ones——

Senator COBURN. Take longer.

Mr. MATTHEWS [continuing]. Like the El Toro, where you have to really work for a while with the community to make sure everything's in place can take multiple years. And I don't think that's inappropriate to do it right.

Senator COBURN. Let me just go through this real quick for a moment, and then we'll close out. This is for Mr. Goldstein. Has the GAO looked at the net difference in cost to the American taxpayer from lease versus lease purchase over the last several years? Have we looked at what that's actually going to cost us more, cost our kids more in terms of increased dollar outflow for what's happening in terms of lease versus lease purchase?

Mr. GOLDSTEIN. We don't have a single number, Mr. Chairman. Over the years, over the last decade we've issued a number of reports, many of which we talked about last fall, that went into what it would have cost, taking a look at a selection of leases versus owned. And those numbers were presented in those reports. We are about to start work that you've requested from us, taking a look more holistically over time at the various costs.

Senator COBURN. Right.

Mr. GOLDSTEIN. And we'll be beginning that work shortly.

Senator COBURN. All right. Well, again, Senator Obama, do you have any other questions?

Senator OBAMA. No. I very much appreciate all of you taking the time to be here.

Senator COBURN. Let me once again thank the U.S. Postal Service. Your staff has been tremendously helpful with this, and each of you for your cooperation in this. This is a real issue for us as a Nation. We need to be great stewards of the physical assets. We need to get rid of the physical assets that we're not utilizing. We need to get the best value that we can for them. We need not to buy another square footage of office space, or space, until we're utilizing what we have today. There ought to be a moratorium on new expansion of any new space until we've got this centralized, controlled and know what our inventory is. Each of you, I know, is a dedicated professional, and I want to thank you for spending the time to prepare for this hearing, and also for coming and testifying. Look forward to working with you in the future. Thank you.

The hearing is adjourned.

(Whereupon, at 11:50 a.m., the Subcommittee was adjourned.)

APPENDIX

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Committee on Homeland Security and Governmental Affairs

For Release on Delivery
Expected at 10:00 a.m. CST
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FEDERAL REAL PROPERTY

Excess and Underutilized Property Is an Ongoing Problem

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues

GAO-06-248T

February 2006

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-248T, a testimony for the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

FEDERAL REAL PROPERTY

Excess and Underutilized Property Is an Ongoing Problem

Why GAO Did This Study

At the start of each new Congress since 1999, we have issued a special series of reports entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, GAO designated federal real property a high-risk area and issued an update in January 2005 on this area. GAO identified excess and underutilized property as one of the major reasons for the high-risk designation.

This testimony discusses GAO's designation of federal real property as a high-risk area, focusing on excess and underutilized property and describes various efforts to address the problem and what more needs to be done.

What GAO Recommends

GAO is not making any new recommendations in this testimony. However, GAO continues to believe, as stated in the high-risk series reports, that the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented and real property-holding agencies effectively implement current and planned initiatives. Solving the problems in this area will require a reconsideration of funding priorities at a time when budget constraints will be pervasive.

www.gao.gov/cgi-bin/getrpt?GAO-06-248T.

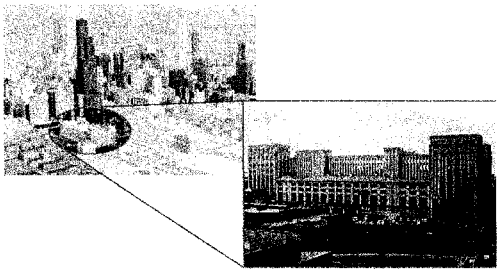
To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark Goldstein at (202) 512-2834 or GoldsteinM@gao.gov.

What GAO Found

The conditions that led to GAO's January 2003 high-risk designation still exist. The government's vast and diverse portfolio of real property reflects an infrastructure based on the business model and technological environment of the 1950s. Many assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. GAO's high-risk reports, updated most recently in January 2005, highlighted problems with excess and underutilized property at several agencies, including the Departments of Defense and Veterans Affairs, the U.S. Postal Service, and the General Services Administration. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. These problems have been exacerbated by underlying obstacles that include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, and the need for better capital planning by agencies.

The administration has acknowledged the problems in this area; in February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed an executive order on real property reform. These and other efforts at the agency level are positive steps. However, despite the progress that has been made, GAO still believes that current structures and processes may not be adequate to fully address the problems. The breadth and complexity of the issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies' efforts to realign their real property assets to their missions.

Example of Vacant Federal Property: The Former Main Post Office in Chicago



Source: USPS

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify today on our work related to federal real property and, in particular, the problem with excess and underutilized property. As you know, at the start of each new Congress since 1999, we have issued a special series of reports entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, we designated federal real property a high-risk area as part of this series, and we issued an update on this area in January 2005.[1] We identified excess and underutilized property as one of the major reasons for the high-risk designation. Other reasons included deteriorated property, unreliable real property data, over-reliance on costly leasing, and the challenges associated with protecting these assets from terrorism. My testimony today will (1) discuss our designation of federal real property as a high-risk area, focusing on excess and underutilized property; and (2) describe various efforts to address the problem and what more needs to be done. My testimony today will highlight the following points:

- The conditions that led to our January 2003 high-risk designation still exist. Many of the assets in the government's vast and diverse portfolio of real property are not effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Additionally, a heavy reliance on costly leasing, instead of ownership, to meet new needs is a pervasive and ongoing problem. These problems have been exacerbated by underlying obstacles that include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, and the need for better capital planning by real property-holding agencies.

- The administration has acknowledged the problems in this area; in February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed an executive order on real property management reform.[2] These and other efforts at the agency level are positive steps. However, the breadth and complexity of

[1]GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: Jan. 2005).

[2]Presidential Executive Order 13327, Feb. 4, 2004.

the issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies' efforts to realign their real property assets to their missions. As a result, we continue to believe that a comprehensive and integrated transformation strategy is needed to address the aforementioned underlying obstacles. As an example, the Office of Management and Budget (OMB) and other stakeholders could look to the U.S. Postal Service (USPS) Transformation Plan and related progress reports, which GAO has supported for guiding postal reform.

The Federal Government Has Many Real Property Assets It Does Not Need

Over 30 federal agencies control hundreds of thousands of real property assets—including both facilities and land—in the United States and abroad. According to available data, the government owns or leases about 3.3 billion square feet of building floor area worldwide in roughly a half-million buildings. About 380 million square feet of this space is leased. These assets are worth hundreds of billions of dollars. However, much of this vast and valuable asset portfolio presents significant management challenges and reflects an infrastructure based on the business model and technological environment of the 1950s. Many assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Our high-risk reports, updated most recently in January 2005, highlighted problems with excess and underutilized property at several agencies, including the Departments of Defense (DOD), Veterans Affairs (VA), Energy, and State; USPS; and the General Services Administration (GSA). Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration, repair, and maintenance needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing instead of ownership to meet new space needs, and the cost and challenge of protecting these assets against potential terrorism. Regarding the federal government's reliance on costly leasing, we testified on this issue before this Subcommittee in October 2005.[3] Building ownership options through construction or purchase and lease-purchase are generally less costly than using operating leases to meet long-term space needs. However, as GAO reported over the last decade, GSA relies heavily on operating leases to meet new long-term space needs because it lacks funds to pursue ownership.

[3] GAO, *Reliance on Costly Leasing to Meet New Space Needs Is an Ongoing Problem*, GAO-06-136T, (Washington, D.C.: October 6, 2005).

The excess and underutilized property problem was, and continues to be, a major reason the real property area remains high risk. In the last decade alone, the federal government has reduced its workforce by several hundred thousand personnel, and several federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general-purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. The advent of electronic government is starting to change how the public interacts with the federal government. These changes will have significant implications for the type and location of property needed in the 21st century. Furthermore, changes in the overall domestic security environment have presented an additional range of challenges to real property management that must be addressed. For example, agencies are employing such measures as searching vehicles that enter federal facilities, restricting parking, and installing concrete barriers.

The experiences of several of the major real property-holding agencies illustrate how mission changes have affected agencies' real property needs. For example, after the Cold War, DOD reduced its force structure by 36 percent. Despite several rounds of base closures, DOD projected that it still had considerably more property than it needed. The National Defense Authorization Act for Fiscal Year 2002 gave DOD the authority for another round of base realignments and military installation closures in 2005. The results of the 2005 BRAC process, which will be discussed in more detail later, became final in November 2005. For USPS, various factors may significantly reduce its need for some of the real property it holds. These factors include new technologies, additional delivery options, and the opportunity for greater use of partnerships and retail co-location arrangements. A July 2003 Presidential Commission report on USPS stated, among other things, that USPS had vacant and underutilized facilities that added little, if any, value to the modern-day delivery of the nation's mail.[4] In April 2005, we reported that USPS faces future financial challenges due to its declining First-Class Mail business and has excess capacity in its current infrastructure that impedes efficiency gains.[5] USPS

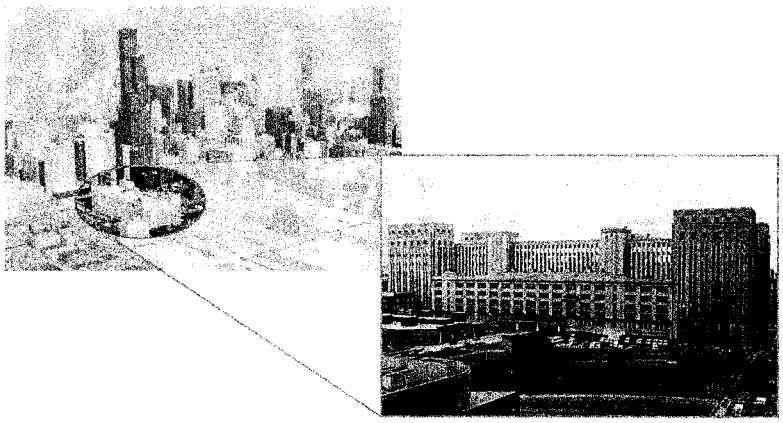
[4]President's Commission on the United States Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service* (Washington, D.C.: July 31, 2003).

[5]GAO, *U.S. Postal Service: Despite Recent Progress, Postal Reform Legislation Is Still Needed* GAO-05-453T, (Washington, D.C.: April 14, 2005).

has stated that one way to increase efficiency is to realign its processing and distribution infrastructure.

The former main post office building in Chicago, near the Sears Tower, is an example of a vacant USPS-owned property (see fig.1). USPS is currently incurring about $2 million in annual holding costs for this property, which was replaced by a new facility and vacated in 1997. Redevelopment of this property has taken several years because, according to USPS, the real estate market was weak and the City of Chicago and the developer have been unable to agree on terms. According to USPS, the property buyer is currently in negotiations with the City of Chicago regarding the property's redevelopment and the granting of certain tax exemptions from the City.

Figure 1: Example of Vacant USPS-Owned Property—the Former Main Post Office in downtown Chicago, Illinois

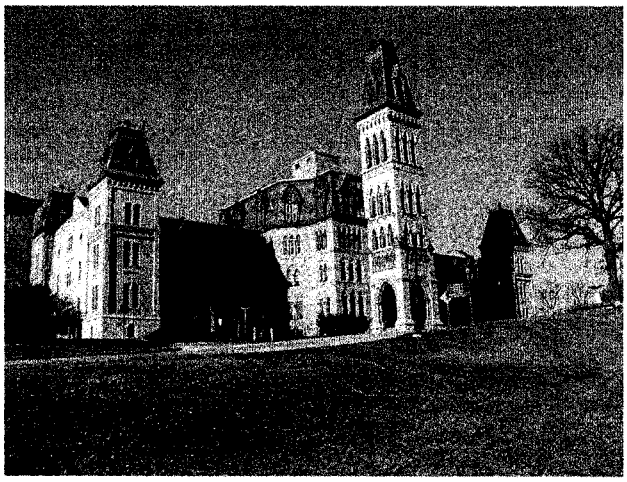


Source: USPS.

In the mid-1990s, VA began shifting its role from being a traditional hospital-based provider of medical services to an integrated delivery system that emphasizes a full continuum of care with a significant shift

from inpatient to outpatient services. Subsequently, VA has struggled to reduce its large inventory of buildings, many of which are underutilized or vacant. In August 2003, we reported that VA had 577 vacant and underutilized properties. Figure 2 shows an example of a vacant VA-owned property in Milwaukee, Wisconsin.

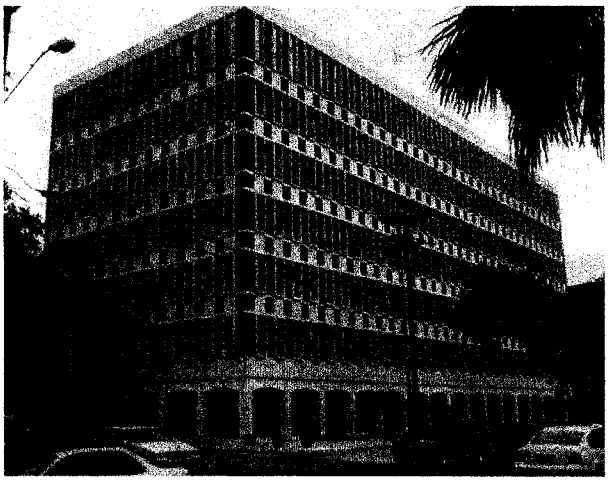
Figure 2: Example of Vacant VA-Owned Property—The Former Main Hospital Building on the Milwaukee, Wisconsin, Health Facility Campus



Source: VA.

The L. Mendel Rivers Federal Building in Charleston, South Carolina is an example of a vacant, highly visible federal building owned by GSA (see fig. 3). This property, which is contaminated with asbestos, has been unoccupied since it sustained damage from Hurricane Floyd in 1999. In the last 10 years, GSA has unsuccessfully explored various options for disposal or reuse. Currently, GSA is planning, under existing authority, to exchange this building with a property owned by the City that would suit the federal government's needs.

Figure 3: Example of Vacant GSA-Owned Property—The L. Mendel Rivers Federal Building in Charleston, South Carolina



Source: Ernst and Young.

The magnitude of the problem with underutilized or excess federal property puts the government at significant risk for wasting taxpayers' money and missing opportunities to benefit taxpayers. First, underutilized or excess property is costly to maintain. In our 2003 high-risk report, we reported that DOD estimated that it was spending $3 billion to $4 billion each year maintaining facilities that were not needed. It is likely that other agencies that continue to hold excess or underutilized property are also incurring significant costs for staff time spent managing the properties and on maintenance, utilities, security, and other building needs. Second, in addition to day-to-day operational costs, holding these properties is costly for the government, because these buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. Continuing to hold property that is unneeded does not present a positive image of the federal government in local communities. Instead, it presents an image of waste and inefficiency that erodes taxpayers' confidence in government. Finally, it also can have

a negative impact on local economies if the property is occupying a valuable location and is not used for other purposes, sold, or used in a public-private partnership.

The excess and underutilized property problem, as well as the other problems that led to our high-risk designation, has been exacerbated by a number of factors that inhibit the government's ability to efficiently dispose of or reuse excess and underutilized property. These include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, and the need for better capital planning by real property-holding agencies. More specifically:

- *Competing Stakeholder Interests* - In addition to Congress, OMB, and the real property-holding agencies themselves, several other stakeholders have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These include foreign and local governments; business interests in the communities where the assets are located; private sector construction and leasing firms; historic preservation organizations; various advocacy groups; and the public in general, which often views the facilities as the physical face of the federal government in local communities. As a result of competing stakeholder interests, decisions about real property often do not reflect the most cost-effective or efficient alternative that is in the interests of the agency or the government as a whole, but instead reflect other priorities.

- *Legal and Budgetary Disincentives* -The complex legal and budgetary environment in which real property managers operate has a significant impact on real property decisionmaking and often does not lead to economically rational and businesslike outcomes. For example, GSA does not have the authority to enter into public-private partnerships to redevelop property. We have reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. Furthermore, resource limitations, in general, often prevent agencies from addressing real property needs from a strategic perspective. When available funds for capital investment are limited, Congress must weigh the need for new, modern facilities with the need for renovation, maintenance, and disposal of existing facilities, the latter of which often gets deferred. In disposing of excess property, agencies also need to consider a range of laws intended to address other objectives—such as historic preservation and environmental remediation.

- *Need for Improved Capital Planning* - Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in increased long-term costs. GAO, Congress, and OMB have identified the need to improve federal decisionmaking regarding capital investment. Our Executive Guide,[6] OMB's Capital Programming Guide, and OMB's revisions to Circular A-11[7] have attempted to provide guidance to agencies for making capital investment decisions. However, agencies are not required to use the guidance. Furthermore, agencies have not always developed overall goals and strategies for implementing capital investment decisions, nor has the federal government generally planned or budgeted for capital assets over the long term.

Various Efforts Initiated, but a Transformation Strategy Is Still Needed

Since our designation of the federal real property area as high-risk in January 2003, the administration and executive agencies have initiated some important efforts to address these problems, including the addition of the Federal Asset Management Initiative to the President's Management Agenda and an executive order on real property management reform which led to the development of guiding principles for real property asset management. The executive order requires the establishment of senior real property officers at specified executive branch departments and agencies who, among other things, prioritize actions needed to improve the operational and financial management of the agency's real property inventory.[8] The order also established a Federal Real Property Council, with representation from major real property-holding agencies. The council has developed guiding principles for real property asset management, and is also developing performance measures, a real property inventory database, and an agency asset management planning process. Related to the excess and underutilized property problem, the administration has set a goal of reducing the value of the federally owned property inventory by 5 percent, or $15 billion, by 2009. The executive order and related initiatives are clearly positive steps. However, they have

[6]GAO, *Executive Guide: Leading Practices in Capital Decision-making*, GAO/AIMD-99-32 (Washington, D.C.: Dec. 1998).

[7]OMB, *Circular No. A-11, Appendix B.*

[8]See 31 USC §901 (b)(1) and (b)(2) for a list of executive branch departments and agencies that are required to establish a senior real property officer.

not been fully implemented and further actions—which will be discussed later—are necessary to address the underlying obstacles to reform.

In addition to the administration's efforts, the Consolidated Appropriations Act for Fiscal Year 2005, Public Law 108-447, gave GSA the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 and to use such proceeds for GSA's real property capital needs. However, this provision was not included in the GSA appropriation act for Fiscal Year 2006.[9] Also, the Veterans Health Programs Improvement Act of 2004, Public Law 108-422, established a capital asset fund and gave VA the authority to retain the proceeds from the disposal of its real property for the use of certain capital asset needs such as demolition, environmental clean-up, and major repairs. Overall, agencies such as DOD, VA, and GSA have made progress in addressing long-standing federal real property problems. For example:

- VA has established a process called Capital Asset Realignment for Enhanced Services (CARES) to address its aging and obsolete portfolio of health care facilities. In March 2005, we reported that through CARES, VA identified 136 locations for evaluation of alternative ways to align inpatient services—99 facilities had potential duplication of services with another nearby facility or low acute patient workload. VA made decisions to realign inpatient health care services at 30 of these locations. For example, it will close all inpatient services at 5 facilities. VA's decisions on inpatient alignment and plans for further study of its capital asset needs are tangible steps in improving management of its capital assets and enhancing health care. Accomplishing its goals, however, will depend on VA's success in completing its evaluations and implementing its CARES decisions to ensure that resources now spent on unneeded capital assets are redirected to health care.

- In DOD's support infrastructure management area, which we identified as high-risk in 1997, DOD has made progress and expects to continue making improvements. In May 2005, we testified that DOD implemented the recommendations from the previous four Base Realignment and Closure (BRAC) [10] rounds within the 6-year period mandated by law and work on a

[9] Transportation, Treasury, Housing and Urban Development, the Judiciary, District of Columbia and Independent Agencies Appropriations Act, 2006, Pub. L. 109-115, 119 Stat. 2396 (2005).

[10] BRAC is the process DOD has previously used to reorganize its installation infrastructure to more efficiently and effectively support its forces and increase operational readiness.

5th, 2005 BRAC, was underway.[11] DOD estimated that it had reduced its domestic infrastructure by about 20 percent from the four prior rounds, as measured by the estimated cost to replace the property; about 90 percent of unneeded BRAC property is now available for reuse. DOD has realized substantial net savings from those four rounds over time. Recommendations approved by the 2005 BRAC round are expected to further reduce DOD's infrastructure but by a much smaller margin than initially expected, although it expects to make a significant reduction in leased space in implementing the BRAC recommendations. DOD also expects to use BRAC to further transformation and related efforts, such as restationing troops from overseas as well as joint basing among the military services. The President concurred with and sent the 2005 BRAC report to Congress in September 2005, and absent congressional action to reject the recommendations within the 45 days provided by law, they became final in November 2005. Planning is now underway to implement those recommendations.

- GSA has recognized in recent years that it has many buildings that are not financially self-sustaining and/or for which there is not a substantial long-term federal purpose. To address this problem, GSA began its Portfolio Restructuring in 2001. This effort seeks to eliminate non-performing or obsolete properties from the GSA inventory. In January 2006, GSA told us that since fiscal year 2002, it had identified 204 buildings as excess and demolished 50 others. We have not evaluated this initiative.

Despite the progress that has been made, we still believe that current structures and processes may not be adequate to fully address the federal real property problems. The breadth and complexity of the issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies' efforts to realign their real property assets to their missions. This is of particular concern for civilian agencies that do not have an independent decision-making apparatus like BRAC. Given this, we concluded in our high-risk report and in our update in January 2005, and still believe, that a comprehensive and integrated transformation strategy for federal real property is needed. Such a strategy could build upon the executive order by providing decisionmakers with a road map of actions for addressing the underlying obstacles, assessing progress governmentwide, and enhancing accountability for related actions. Using input from agencies, the private sector, and other interested

[11]GAO, *Military Base Closures: Observations on Prior and Current BRAC Rounds*, GAO-05-614 (Washington, D.C.: May 3, 2005).

groups, the strategy could comprehensively address these long-standing problems with specific proposals on how best to

- realign the federal infrastructure and dispose of unneeded property, taking into account mission requirements, changes in technology, security needs, costs, and how the government conducts business in the 21st century;
- address the significant repair and restoration needs of the federal portfolio;
- ensure that reliable governmentwide and agency-specific real property data—both financial and program related—are available for informed decisionmaking;
- resolve the problem of heavy reliance on costly leasing; and
- consider the impact that the threat of terrorism will have on real property needs and challenges, including how to balance public access with safety.

To be effective in addressing these problems, it would be important for the strategy to focus on the underlying obstacles by

- minimizing the negative effects associated with competing stakeholder interests in real property decisionmaking;
- providing agencies with appropriate tools and incentives that will facilitate businesslike decisions—for example, consideration should be given to what financing options should be available; how disposal proceeds should be handled; what process would permit comparisons between rehabilitation/renovation and replacement and among construction, purchase, lease-purchase, and operating lease; and how public-private partnerships should be evaluated;
- addressing federal human capital issues related to real property by recognizing that real property conditions affect the productivity and morale of employees and the federal government's ability to attract and retain high-performing individuals;
- improving real property capital planning in the federal government by helping agencies to better integrate agency mission considerations into the capital decision-making process, make businesslike decisions when evaluating and selecting capital assets, evaluate and select capital assets by using an investment approach, evaluate results on an ongoing basis, and develop long-term capital plans; and

- ensuring credible, rational, long-term budget planning for facility sustainment, modernization, or recapitalization.

As an example, OMB and other stakeholders could look to the USPS Strategic Transformation Plan and related progress reports, which GAO has supported for guiding postal reform.[12] Also, the transformation strategy should reflect the lessons learned and leading practices of organizations in the public and private sectors that have attempted to reform their real property practices. Over the past decade, leading organizations in both the public and private sectors have been recognizing the impact that real property decisions have on their overall success. Better management of real property assets in the current environment calls for a significant departure from the traditional way of doing business. Solutions should not only correct the long-standing problems we have identified but also respond to and support agencies' changing missions, security concerns, and technological needs in the 21st century. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, recruit and retain employees, and achieve mission effectiveness.

Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive. Without effective incentives and tools; top management accountability, leadership, and commitment; adequate funding; full transparency with regard to the government's real property activities; and an effective system to measure results, long-standing real property problems will continue and likely worsen. However, the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented, reforms are made, and property-holding agencies effectively implement current and planned initiatives. OMB has informed us that it has taken additional steps to address the federal government's problems in the real property area. Specifically, it has developed an action plan for addressing these long-standing issues in relation to the President's Management Agenda and the executive order. To assist OMB with its efforts, we have agreed to meet regularly to discuss

[12]U.S. Postal Service, *Strategic Transformation Plan* (Washington, D.C.: Sept. 2005); U.S. Postal Service, *Progress Report* (Washington, D.C.: Nov. 2004).

progress and have provided OMB with specific suggestions on the types of actions and results that could be helpful in justifying the removal of real property from the high-risk list.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

Scope and Methodology

We conducted our work for this testimony from October 2005 to January 2006 in accordance with generally accepted government auditing standards. The work is based on our past reports on federal real property and, specifically, excess and underutilized property issues.

Contacts and Acknowledgments

For further information on this testimony, please contact Mark L. Goldstein on (202) 512-2834 or at GoldsteinM@gao.gov. Key contributions to this testimony were made by Kieran McCarthy, Susan Michal-Smith, and David Sausville.

STATEMENT OF

WILLIAM H. MATTHEWS
ASSISTANT COMMISSIONER

OFFICE OF REAL PROPERTY ASSET MANAGEMENT
PUBLIC BUILDINGS SERVICE

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON FEDERAL FINANCIAL
MANAGEMENT, GOVERNMENT INFORMATION, AND
INTERNATIONAL SECURITY

UNITED STATES SENATE

OCTOBER 6, 2005

Good morning Mr. Chairman and Members of the Subcommittee. My name is William Matthews, Assistant Commissioner, Office of Real Property Asset Management, and Public Buildings Service (PBS) of the General Services Administration (GSA). I am pleased to appear before you to discuss how GSA leases space and answer any of your questions.

GSA is the nation's largest public real estate organization, providing workspace for more than 1.1 million Federal workers. We are a real estate services delivery organization -- supporting our customer agencies in their mission of service to the American people. As such, it is *our* mission to provide a superior workplace for the Federal worker and a superior value for the taxpayer.

Our Agency Customers are required to use existing, vacant, Federally-controlled space when that space is available and suitable to meet their mission requirements. When suitable Federal space is not available, we can lease space from the private sector...

Approximately half of our customers' workforce is housed in about 1600 buildings owned by the Federal Government through GSA. The other half are located in over 7,300 buildings that we lease from the private sector in over 2,000 American communities across the United States and its territories. These leased buildings

together comprise over 167 million square feet of our total portfolio of approximately 340 million square feet. Our annual rent bill for leases with private landlords is about $3.8 billion.

We lease space in both large cities and small towns when leasing is the only practical answer to meeting Federal space needs. More than 50 percent of our leases (by number) are for 10,000 square feet or less. The size of a lease can range from a single room to an entire building.

We lease all types of space for most Federal agencies, including offices, laboratories, warehouses, clinics, and border stations. We locate them according to the customer's mission requirements in urban, suburban, and rural areas and in accordance with established location and security policies. We execute many single tenant leases, but also many multi-tenant leases with agencies consolidated for economy of scale. Other GSA leases meet tenant's needs for store-front locations and high public access. These are in contrast with other leases for customers who require limited access to and control of their buildings for security purposes. As I said, GSA leases all types of space for Federal agencies.

When the existing inventory of buildings in the local market cannot meet our customer's requirements, and where Federal construction is not an option, we solicit the construction of a new building, which is built to meet our customer's specifications and leased by us on the customer's behalf.

Our principal authority to lease real property for use by Federal agencies is derived from the former Federal Property and Administrative Services Act of 1949 and Reorganization Plan No. 18 of 1950. That authority is now codified in Title 40 of the United States Code, Section 585, which authorizes GSA to enter into space leases on behalf of Federal agencies for terms up to 20 years.

In terms of cost to our tenants, we strive to keep leasing costs at or below market levels and have developed comprehensive strategies to do so. We use standard industry benchmarks and market surveys to assure that we get the best value for our customers. We use published market sources to gain a better understanding of area markets. Our standard lease forms balance the interests of the Government against the interests of private landlords to achieve cost-effective contract terms. Because GSA often acquires large blocks of space to meet the needs of multiple Federal agencies, we are often able to leverage our market position to get more favorable rent rates and lease terms for the Federal taxpayer. Also, the credit worthiness of the Federal Government can serve as an important consideration in obtaining competitive or below-market rent rates.

Additionally, this year we awarded a National Broker Contract. This effort consolidated our private sector leasing support services among four commercial real estate service firms. This award is the largest single contract of its type in the history of GSA's Public Buildings Service and will enable us to leverage the expertise of private sector brokers

and increase our capacity to achieve the best value in the market place. It will also assist us in our efforts to standardize leasing practices nationwide and provide more support to our customers.

Another important consideration in measuring value in the real estate arena is the cost of having vacant space. The vacant space within our leased inventory is only 1.3 percent - a figure well below the national industry average of 14.5 percent according to Torto Wheaton Research.

Security

Not surprising the ever increasing need for security does have an effect on GSA's leasing process and on GSA's leases. The need for greater building setbacks, blast resistance, building access requirements and who can be co-located within our space all affect our lease procurement and the cost of the space we lease.

Laws and Regulations

Our leasing process is conducted within a framework of procedures that comply with a comprehensive list of laws and Executive orders that apply to Government contracts. These include the Competition in Contracting Act; the Small Business Act; and energy, environmental, and historic preservation laws and orders.

Leases with an annual cost that exceeds a specific dollar threshold amount ($2,410,000 in fiscal year 2006) require explicit congressional authorization. For this purpose GSA submits prospectuses to the Senate Committee on Environment and Public Works and the House Committee on Transportation and Infrastructure for their approval.

Leasing Process

For all of our leasing activities we follow a fairly standard process. This process starts with our customer agencies approaching us with their workplace requirements. Some customers come to us with a complete requirements package developed in accordance with professional space planning models. For other customers, we need to work closely with them to document their specific requirements.

In determining the actual requirements of our customers, we conduct a series of meetings with the customer to review and confirm their general requirements. Once our customer's space requirements are better established, we memorialize the amount and types of space they need, and the expected duration of the lease, in an interagency agreement called an Occupancy Agreement. At this stage, we review the availability of Federally-controlled space that may meet the agency's requirements. If none is available, we then study the market against the customer's requirements and develop

and present various leased housing options. When we agree with our customers on the best approach, we then formalize the requirements for our Solicitation for Offers. At this stage, we also document our proposed arrangement with the agency customer.

We advertise requirements for space in local newspapers and/or the Federal business opportunities webpage at www.fedbizopps.gov to ensure that we get the maximum amount of competition from the private sector.

Once initial bids are received, we generally conduct negotiations with all Offerors to assure that they understand the requirements and can better prepare their final proposals. When final proposals are received, we evaluate them and make an award to the responsible Offeror whose proposal represents the best value to the Government considering price and other factors. Most leases are awarded to the Offeror who meets the Government's minimum requirements at the lowest price. For more complex requirements, however, we sometimes conduct "source selection" procurements where a higher-rated qualitative proposal may prevail over a lower-rated and lower-priced proposal. These cases require a determination that the technical superiority offered by the higher priced proposal is worth the cost differential.

We give the successful Offeror an adequate time to build out the space according to the lease requirements; we inspect and accept the space; we assist our tenants in occupying the space; and then start the rent paying process.

GSA's lease responsibilities do not stop when the customer occupies the space. Typically, unless GSA has delegated operational responsibility to our customer agency, GSA is responsible for the administration of the lease throughout the term. Also, under a program called "Can't Beat GSA Leasing", GSA delegated its leasing authority to other Federal agencies. It was our intention to make GSA a provider of choice for our Federal agency customers; and I am pleased to say that almost all of our customers chose to stay with GSA because of the service and value we provide.

Mr. Chairman, this is the approach we use to identify and meet our customer agency's mission requests for work space. Meeting our customer's requirements in an efficient and cost effective manner is our Agency's highest priority. Customer service and customer satisfaction together with achieving superior value for the American taxpayer are at the core of the GSA mission.

Mr. Chairman, thank you for the opportunity to testify before your Subcommittee. I will be happy to answer any questions you or Members of the Subcommittee may have.

Testimony of
James M. Sullivan
Deputy Director, Office of Asset Enterprise Management
Office of Management
Department of Veterans Affairs
Before the Subcommittee on Federal Financial Management, Government Information, and International Security
Committee on Homeland Security and Governmental Affairs,
United States Senate
February 6, 2006

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Mr. Chairman and Members of the Subcommittee, I am pleased to appear this afternoon to provide you with an overview of the Department of Veterans Affairs' (VA) ongoing efforts and processes to strategically manage underutilized and vacant space within VA's system.

VA is the owner, tenant, and operator of one of the largest healthcare related real estate portfolios in the nation. Its inventory consists of an assortment of land, buildings, and facilities such as hospitals, clinics, and office buildings. Many of these facilities currently are used, managed, and maintained in relation to and for promotion of the respective activities of VA's "Veterans Health Administration" (VHA), "Veterans Benefits Administration" (VBA), and "National Cemetery Administration" (NCA). In total, there currently are approximately 32,527 acres of land and 5,306 buildings on approximately 300 sites.

At the close of FY 2005, VA owned 148,645,698 square feet of space, 4,971,815 square feet of which was underutilized space VA outleased to generate revenue. This represents a 1,035,205 square foot reduction in non-productive, underutilized space from the previous fiscal year. Nationwide, the cost per square foot to operate and maintain VA properties was equivalent to $4.98 per square foot for a holding cost total of $758,867,828, based on Federal Real Property Council definitions, in FY 2005.

VA utilizes a capital asset management tool called Enhanced-Use Leasing to better manage underutilized properties. From underutilized assets, revenue is redirected back to the healthcare and capital operations of our medical centers, cemeteries, and benefits offices that serve our nation's veterans every day. Revenue from these projects helps provide additional funding to the medical centers through healthcare and capital costs with enhanced use agreements. In 2005, VA received over $900,000 in-kind consideration in form of cash and $28,000,000 in one lump Enhanced-Use Lease payment. VA partners with private or non-profit entities that, in turn, provide, as consideration, low-cost senior housing, co-generation energy facilities, single room occupancy housing (homeless shelters), child care, mental health centers, office buildings, and parking facilities that are not VA programs.

VA does, however, have a significant number of properties in its inventory in locations that do not coincide with where veterans currently live, and in many cases are over 50 or 60 years old. Nationwide, 7,413,625 of the total VA square footage, or 5%, is vacant but scattered throughout the country. As modern trends in healthcare move away from large inpatient units and more toward outpatient care, VA may see large areas of vacant space at one facility, while another facility may have a significant need for additional space.

I now want to discuss with you VA's efforts in managing this complex property portfolio while continuing to increase benefits and enhance services to veterans.

CARES

Former Secretary Anthony Principi formed the Capital Asset Realignment for Enhanced Services (CARES) Commission to conduct a "comprehensive, system-wide approach..., identifying the demand for VA care and projecting into the future the appropriate function, size, and location for VA facilities." The Commission submitted findings and recommendations in February of 2004, and on May 7, 2004, the Secretary released his CARES Decision based on the Commission's findings and recommendations for each CARES site. This Decision became VA's roadmap into the future.

In fact, Veterans Integrated Service Network (VISN) 12, here in Chicago is the first site whereby VA used its Enhanced-Use Leasing authority to implement a CARES realignment decision. Specifically, on January 18, 2005, VA signed a 75-year Enhanced-Use Lease with Northwestern Memorial Hospital (NMH) for two parcels of land totaling 3.8 acres. VA realized $28 million upon signing the lease. Then, on October 4, 2005, after the Secretary determined that the two parcels were no longer needed by the Department, VA per 38 U.S.C. § 8164 and applicable lease terms, disposed of them to NMH in exchange for an additional $22 million. This is an example of a very successful leasing and disposal of underutilized VA property. These transactions resulted in a demonstrable improvement of services to eligible veterans by permitting VA to offset the cost of implementing CARES in the City of Chicago and other locations, and avoid future maintenance of aging health care facilities. They also ensured the continuation of quality medical care for Chicago area veterans through VA's use of monetary consideration from the Lakeside Enhanced-Use Lease to fund additional FY 2006 capital improvements.

VA's Portfolio Management Approach

VA utilizes a three-tiered portfolio management approach. This approach is the blueprint for VA portfolio management nationwide. First, VA manages what we have more effectively through Federal Real Property Council (FRPC) performance standards as well as using unique technology-assisted inventory management system. Secondly, VA selects prudent capital investments through appropriated dollars. And lastly, we use an innovative approach to reduce underutilized assets through our Enhanced-Use Lease authority.

Approach # 1: More Effective Management of Assets
VA is committed to four metrics that set the goals for performance. They include the percent of space utilization as compared to overall space (owned and direct leased); the percent condition index (owned buildings); the ratio of non-mission-dependent assets to total assets; and lastly the ratio of operating costs per gross square foot (GSF) adjusting for inflation. These goals are based on the FRPC standards for performance measurement in capital portfolio management.

VA is striving to utilize information technology and established capital asset management principles to improve the management of its capital resources. VA created Capital Asset Management System (CAMS), an integrated, Department-wide system, enabling VA to analyze, monitor, and manage VA's portfolio of capital assets. Data are organized and presented to strategically monitor performance against capital asset goals within and across asset types and VA Administrations (VHA, VBA, and NCA).

Approach # 2: Prudent Investments with Appropriated Dollars
VA uses appropriated dollars to manage CARES capital investment projects that have proven to be prudent investments. Each project is measured by the President's Management Council and VA performance measures to ensure the best use of our overall portfolio needs. This innovative approach has allowed VA to manage underutilized assets in a more efficient and cost-effective manner.

Approach #3: Enhanced-Use Leasing Authority
VA studies its real property holdings through the CARES process to determine mission-critical need. Should a need not exist, VA primarily uses the Enhanced-Use Lease authority to outlease the property to generate non-appropriated revenues, and otherwise considers the use of more traditional conveyance and disposal authorities. Having recognized the need to reduce the number of vacant and underutilized real property assets, over the past 14 years VA has awarded 47 projects through the Enhanced-Use Leasing authority. This legislation provides the Department an asset management authority that allows VA to enter into agreements with public and private entities for the use of VA space and/or land for private development, resulting in some form of consideration back to VA and to veterans. An additional 100 initiatives are being studied, of which 45 projects are currently "active".

VA's Enhanced-Use Lease Authority was initially authorized in 1991 under Title 38 U.S.C. Section 8161 through 8169 and has been modified and reauthorized until 2011. The Enhanced-Use Leasing program provides VA with a proven method of leveraging VA's diverse real estate portfolio and market position. This authority allows for realignment of under-performing property to produce the "highest and best" return to veterans, taxpayers, and the government.

Traditionally, VA land and buildings were acquired and managed by utilizing appropriated funds. The Enhanced-Use Leasing program has brought significant cost savings, substantial private investment, new long-term sources of revenues, as well as jobs or tax revenues for the local, state and federal sectors.

Below are a few additional examples of successful property portfolio management through Enhanced-Used Leasing.

Minneapolis, Minnesota – Single Room Occupancy (SRO): On September 1, 2005, the Department awarded an Enhanced-Use Lease of 4.341 acres of land on the VAMC campus to the selected lessee/developer, Hennepin County Housing and Redevelopment Authority (HCHRA) for a SRO facility. HCHRA intends to construct not less than 140 units in 2 existing VA buildings and adequate associated parking, and use existing Building 11 as an administration building. HCHRA would be responsible for the financing, design, construction, renovation, operation, maintenance, and provision of services at the facility. Benefits from the lease include the availability of safe, decent and affordable housing for veterans and others who are in need, storage and office space for VA, as well as significant cost avoidance to VA by reducing reliance on inpatient and domiciliary resources. Such benefits, together with ground rent to VA, will permit more resources to be directed toward direct veteran care.

Leavenworth, Kansas – Mixed-Use Development: On August 5, 2005, VA signed an Enhanced-Use Lease with Eisenhower Ridge Association (ERA) to renovate 38 underutilized buildings and to adaptively reuse historic properties located on approximately 50 acres of land. This mixed-use development will provide services and accommodations relating to affordable senior housing, long-term care, transitional veterans housing with supportive services, long-term

veteran housing, and educational and community support facilities. The project will also result in additional land (without historical buildings) to become available to the Leavenworth National Cemetery for additional gravesites for veterans and for a columbarium.

Chicago (Lakeside), Illinois – Realignment: As previously indicated, on January 18, 2005, VA signed a 75-year Enhanced-Use Lease with Northwestern Memorial Hospital (NMH) for two parcels of land totaling 3.8 acres. VA realized $28M in exchange for the lease. Then, on October 4, 2005, after the Secretary determined that the two parcels were no longer needed by the Department, VA per 38 U.S.C. § 8164 and applicable lease terms, disposed of them to NMH in exchange for an additional $22 million. These two transactions mark the first time that VA has used its Enhanced-Use Leasing authority to implement a CARES realignment decision. The Lakeside lease will result in a demonstrable improvement of services to eligible veterans by permitting VA to offset the cost of implementing CARES in the City of Chicago and other locations, and avoid the future cost of investing VA's limited capital funds in aging health care facilities. The lease also will insure the continuation of quality medical care for Chicago area veterans and enhance the Department's ability to better manage its resources, including the portfolio of Federal real property assets under VA's control. VA used monetary consideration from the Lakeside Enhanced-Use Lease to fund additional FY 2006 capital improvements.

Tuscaloosa, Alabama – Hospice: On September 22, 2002, VA leased approximately 3.7 acres on the Tuscaloosa VA Medical Center campus to the Hospice of West Alabama (HOWA) for 75 years to finance, design, develop, construct, operate, and maintain a "hospice facility" with not less than 8 beds available to veterans on a priority basis and then to other residents in need of hospice care. VA and veterans benefit in obtaining access to new safe, decent and affordable inpatient hospice care and services to VA-referred veterans who are in need of hospice care.

Chicago (Westside) Illinois – Energy: On August 12, 2002, VA entered into an EU Lease of VA real property to a trust that has secured a developer/operator Energy Systems Group (ESG) to develop and thereafter operate and maintain a state-of-the-art energy center that produces and sells energy to the VAMC with an opportunity to sell energy products to non-VA users. In return, VA receives energy cost savings.

North Chicago, Illinois – Energy Phase 1: On May 1, 2002, VA entered into an EU Lease of VA real property to a trust that has secured a developer/operator Energy Systems Group (ESG) to develop and thereafter operate and maintain a state-of-the-art energy center that produces and sells energy to the VAMC with an opportunity to sell energy products to non-VA users. In return, VA receives energy cost savings.

Chicago (Westside) Illinois – Regional Office Collocation: On April 22, 2002, VA leased 4 acres of land on the Westside campus for 35 years to a lessee/developer who would finance, develop, construct, and manage a commercial office building. This agreement enabled VA to collocate the Chicago VA Regional Office on the VA medical center campus to improve delivery of benefit and health care services, reduce costs, enhance VA property and improve access for Illinois veterans and their families. In return, VA receives turn-key office space, with no capital cost. The lessee also provides in-kind services and other benefits as long as VA requires office space.

Chicago (Westside) Illinois – Parking: On April 22, 2002, VA also leased 4 acres of land on the Westside campus for 35 years to a lessee/developer who would finance, develop, construct, and manage a parking garage complex. In return, VA receives vital additional parking at no

capital cost. The lessee will also provide in-kind services and other benefits as long as VA requires parking.

Indianapolis, Indiana – Consolidation: On September 6, 1996, VA leased approximately 22.29 acres of the 30 acre Cold Spring Road Division to the State of Indiana. This transaction allowed VA to close the Cold Springs Road Division and consolidate operations at the West Tenth Street Division of the VA Medical Center at Indianapolis. As part of the State's total rental consideration ($15.7 million) for the property, $9.8 million is provided as revenue to support benefits for the veterans of the State of Indiana and to provide other VA benefits as the Secretary deems necessary elsewhere. The remaining $5.9 million is valued as in-kind consideration which includes property maintenance services to VA.

Land Management Taskforce

With the lessons we have learned in the CARES process, VA is developing a Land Management Taskforce. It is envisioned that this Taskforce will be focused on a top-down review of *all* underutilized assets and their associated encumbrances. A VA "Site Review Board" will be tasked with steering a full review of all the CARES assets and identifying any and all sites that may have underutilized space. The results of this taskforce will steer the course for future Enhanced-Use Lease transactions that will reduce VA's underutilized and vacant assets and generate revenues to support our mission. This is a unique opportunity to increase the revenue generated from VA's underutilized assets.

Conclusion

Throughout the process, VA has worked closely with Congress and is committed to keeping members of Congress apprised of VA's efforts to promote efficient business practices in maintaining real property portfolios.

Thank you for your interest in this process, and I appreciate your continued commitment to our nation's veterans. That concludes my statement. I will be glad to respond to any questions that you or Members of the Subcommittee may have.

APPENDIX

Awarded EUL Projects

	Location		Project Type	Lease Awarded
1	Washington	DC	Child Development Center	4/20/1993
2	Houston	TX	Collocation	8/23/1993
3	West Palm Beach	FL	Public Safety Center	11/14/1994
4	West Haven*	CT	Child Development Center	12/1/1994
5	Big Spring	TX	Parking	3/8/1996
6	Indianapolis	IN	Consolidation	9/23/1996
7	Bay Pines*	FL	Child Development Center	5/22/1997
8	St. Cloud	MN	Golf Course	7/28/1997
9	Atlanta	GA	Regional Office (RO) Collocation	12/18/1997
10	Portland	OR	Single Room Occupancy (SRO)	7/14/1998
11	North Little Rock	AR	Golf Course	10/1/1998
12	Mt. Home	TN	Medical School	12/17/1998
13	Sioux Falls	SD	Parking	4/1/1999
14	Danville	IL	Senior Housing	4/27/1999
15	Mt. Home	TN	Energy	12/2/1999
16	Indianapolis*	IN	Nursing Home	12/6/1999
17	Dallas	TX	Child Development Center	12/20/1999
18	Roseburg	OR	SRO	8/1/2000
19	Salt Lake City	UT	RO collocation	5/9/2001
20	Durham	NC	Mixed Use / Research	1/3/2002
21	North Chicago	IL	Medical School	4/10/2002
22	Chicago (Westside)	IL	RO Collocation/Parking Structure	4/22/2002
23	North Chicago	IL	Energy Center Phase I	5/21/2002
24	Batavia*	NY	Single Room Occupancy (SRO)	5/24/2002
25	Chicago (Westside)	IL	Energy	8/12/2002
26	Tuscaloosa	AL	Hospice	9/19/2002
27	Barbers Point	HI	Single Room Occupancy	3/17/2003
28	Milwaukee	WI	Regional Office (RO) Collocation	7/17/2003
29	Hines	IL	SRO Phase I (Building 14)	8/22/2003
30	Somerville	NJ	Mixed Use	9/5/2003
31	North Chicago	IL	Energy Center Phase II (Expansion)	10/29/2003
32	Mound City	IL	Interpretive/Visitor Center	11/6/2003
33	Butler	PA	Mental Health Facility	12/18/2003
34	Portland	OR	Crisis Triage Center	2/13/2004
35	Charleston/MUSC	SC	Affiliate Partnering	5/18/2004
36	Hines	IL	SRO Phase II	7/30/2004
37	Minneapolis	MN	Credit Union	8/17/2004
38	Batavia	NY	Assisted Living	8/24/2004
39	Bedford	MA	Single Room Occupancy housing	9/10/2004
40	Hines	IL	Building 14 – Transitional Housing (Amended and Restated)	11/12/2004
41	Hines	IL	Building 53 – Assisted Living (Amended and Restated)	12/27/2004

	Location		Project Type	Lease Awarded
42	Dayton	OH	Child Care Development Center	12/30/04
43	Dayton	OH	Housing Initiative	12/30/2004
44	Chicago (Lakeside)	IL	Realignment	1/18/2005
45	St. Cloud	MN	Homeless Housing	5/24/2005
46	Leavenworth	KS	Residential Health Care	8/5/2005
47	Minneapolis	MN	Single Room Occupancy (SRO)	9/1/2005

* Terminated projects

Secretary's Approved Priority Enhanced-Use Lease Projects (July 2005)

Project Site	Project Type	Project Description
Albany, NY	Parking	Lease to not-for-profit corporation for construction and maintenance of a parking structure.
Albuquerque, NM	Assisted Living	Lease for assisted living for spinal cord injury patients.
Battle Creek, MI	Laundry	Lease to reduce laundry costs.
Brevard, FL	Assisted Living	Lease of donated land to establish an assisted living housing complex.
Butler, PA	Homeless Residential Program	Expansion of existing homeless residence to serve veterans.
Butler, PA	Hospital	Demolition of old hospital and support buildings, construction of new hospital, cancer center, and medical office buildings.
Cleveland, OH	Domiciliary	Lease to provide funding for services of 120-bed domiciliary, space for VA program support, and community organizations.
Columbia, SC	Mixed Use/ Realignment	Lease for a mixed-use residential development; possible VBA Regional Office relocation to the VAMC campus.
Danville, IL	Student Housing	Lease to reduce Illiana HCS overhead and create 144-bed student housing complex.
Ft. Howard, MD	Mission Realign	Lease for development of a continuum of care retirement community & a replacement CBOC on the vacated VA campus.
Hines, IL	Assisted Living	Create assisted living facility in existing building with non-profit.
Houston, TX	Clinical/ Ambulatory Space	Lease to develop clinical and ambulatory space.
Lebanon, PA	Golf Course	Lease to township by providing golf therapy to patients.
Los Angeles, CA	Collocation	VBA will exit leased space to collocate at VHA space.
Marion, IL	Hotel	Lease to increase access to on site hotel for veterans and families.
Marion, IN	Senior Housing	Low income housing for senior and veterans
Milwaukee, WI	Mixed Use	Proposed EU lease for assisted living, retail, and entertainment development.
Montrose, NY	Assisted Living	Reduce maintenance and repair costs to VA while providing funding for community-based clinics and senior and assisted living housing.
Nashville, TN	Research	Lease to Vanderbilt University to provide research facilities to VA.
Newington, CT	Assisted Living	Lease to develop assisted living facility.
Phoenix, AZ	Child Care	Exit high cost leases to obtain on-site offices and childcare

Project Site	Project Type	Project Description
	Development Center	complex for VAMC employees.
Riverside, CA	Transitional Housing	Provide at least 118 beds transitional housing for homeless veterans.
Sacramento, CA	Assisted Living	Lease to provide assisted living facility.
Saint Cloud, MN	Emergency Shelter	Lease to Salvation Army to provide an emergency shelter for veterans.
Saint Louis, MO	Parking	Public/private partnership to build nine-level parking deck. VA patients, visitors, employees get free parking for duration of lease.
San Francisco, CA	Research	Lease to Northern California Institute for Research and Education to develop a new research facility.
Sepulveda, CA	Homeless Veteran Housing	Lease to New Directions, Inc. a non-profit organization, for transitional housing and ancillary services.
Syracuse, NY	Research	Lease to SUNY Upstate Medical University and College of Environmental Science and Forestry for a Biotech Research Center.
White City, OR	Community College	VA/Community college partnership providing training for veterans and VA staff.
Coatesville, PA; Philadelphia, PA; Pittsburgh, PA (Aspinwall & Univ Drive); Wilkes-Barre, PA	Cogeneration, energy savings	Potential for reducing costs and generating revenue via national cogeneration plan.
National VHA	CMOP	Consolidated mail outpatient pharmacy.

STATEMENT OF
TOM SAMRA, VICE PRESIDENT, FACILITIES
UNITED STATES POSTAL SERVICE
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY
OF THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

CHICAGO, ILLINOIS
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Good morning, Chairman Coburn and members of the Subcommittee. I am pleased to meet with you to discuss the Postal Service's continuing and aggressive efforts to dispose of unneeded buildings and real estate. I am particularly pleased that a Postal Service facility is able to host today's hearing.

When I accepted my current position with the Postal Service, only two short months ago, my experience and observation provided me with a good working knowledge of the complexity of our nationwide mail processing and delivery network. Since that time I have been impressed with the focused efforts of our people to continue to adjust our network of properties to meet the changing needs of our customers, their communities and, of course, our operational requirements.

With more than 34,000 Post Offices, processing plants, vehicle maintenance facilities, and administrative offices, this requires flexibility, responsiveness and a sharp eye on the bottom line. Some 26,100 of these facilities are leased, and 8,400 are owned.

Because the Postal Service is required to operate like a business, with its operational costs borne by the income from the sale of our products and services – not through appropriations – we must keep our focus on minimizing costs and maximizing revenues. This contributes to our goal of providing maximum value for our customers.

The Postal Service's network, as it exists today, is different than the network that existed yesterday and is different than the network that will exist tomorrow.

As communities grow, we must provide the infrastructure to accommodate expanding delivery and retail requirements of local residents. Consider, for a moment, that last year alone, we added more than 2 million new homes and businesses to our delivery network. And, as population centers shift, we must provide sufficient processing capacity – linked to modern transportation networks – to support local service needs. At the same time, we must embrace advances in technology that allow us to become more productive. That means we must replace buildings that were constructed for another time and cannot accommodate the state-of-the-art automated equipment that is the backbone of today's mail processing operations. In addition, by expanding customer access through alternate service channels, including our website, usps.com, and third-party retail providers, we have mitigated network growth.

Ultimately, this means that we must shed properties, as well. If community growth calls for a larger, more modern Post Office, we work to remove the older, unneeded building from our books. Over time, multiple processing facilities may have been acquired to serve the needs of a number of metropolitan areas in the same general region. As technology advances and as processing needs change, we explore opportunities to consolidate operations in a lesser number of buildings – existing or new. When this occurs, we take advantage of the opportunity to terminate leases or to sell the unneeded property.

In 1997, we initiated a focused asset management program. Its goal is to provide internal expertise to identify, analyze, and maximize the return on underutilized and surplus buildings and real estate. While it can be a challenge to realize the maximum market value from each property, the success of our asset management team has been remarkable. Since the program began, the Postal Service has realized gross revenues in excess of $1 billion through the lease or sale of unneeded property, with over $700 million of this figure representing sales of more than 500 properties.

We continue to closely and actively manage our entire facilities portfolio. As part of the Operations group, the Facilities department benefits from the early knowledge of changes that affect buildings used for mail processing, delivery or retail services. This allows us to act quickly when a property is no longer needed. It is immediately added to our database of surplus property – which is linked to our overall facilities management database – and we begin the process of removing it from our rolls. This is the key to keeping our inventory of surplus property as low as possible. Our process includes obtaining a current appraisal, notification to federal, state and local governments, resolution of environmental issues and development of a market exposure plan. Progress and results are tracked through the database.

Today, 44 facilities – only one tenth of one percent of our entire portfolio – are carried as surplus. Of these, 27, with a value of $103,124,500, have been offered for sale; 13, with a value of $80,831,442, are under contract; and four, valued at $224,969,425, including New York City's huge Farley building, are the subject of active negotiation. Last year alone, we realized $48 million from the sale of 50 buildings we no longer needed. While we do not place a value on our inventory of operating properties, market values are assigned to individual buildings as they enter the surplus-property disposition process.

There are costs associated with maintaining surplus buildings that are no longer operating properties until their ultimate transfer, either through sale or lease. These costs are necessary to maintain the value of the assets by keeping them in marketable condition, and to protect the safety of the public by avoiding the potential danger if a property were to fall into disrepair. Clearly, our goal of minimizing these costs is a key driver of our efforts to remove these properties from our rolls as expeditiously as possible. Last year, aggregate holding costs amounted to approximately $2,211,000, with a full 90 percent of this cost attributable to our former Chicago processing plant, which is discussed below in further detail.

Looking forward, we will continue to tightly manage our inventory of excess property. We are also examining our processing network to determine if consolidation of some operations can result in efficiencies and savings that contribute to serving our customers – the American people – even more effectively. This is particularly significant in light of the fact that our mail processing needs are changing. Single-piece First-Class Mail – the type of mail that requires the most intensive front-end handling – is declining in volume. At the same time, we have experienced some growth in mail that has been presorted and entered in bulk, able to bypass some processing operations altogether. As consolidation opportunities present themselves, we will move quickly to take advantage of them.

Despite our best efforts, the sale of some properties can be extremely challenging. This is the situation we face here in Chicago with our former mail processing and distribution center. It served us well for many years. But, as manual operations were replaced by automation, its multi-story configuration simply could not accommodate the space requirements of today's equipment and mail flows.

It is a very old, industrial building, constructed in phases between 1922 and 1934. Because it is essentially three buildings in one, floor elevations do not align across buildings, the window-to-floor ratio is extremely low, and its ten large floors, each 250,000 square feet, are nearly impossible to divide into smaller uses. Because of its sheer size – 2,500,000 square feet – and its configuration, we have been unable to identify a single user for the entire property. In fact, it is the largest facility the Postal Service has ever owned.

We have, of course, considered mixed-use projects. By their very nature, however, these projects require significantly longer development time and must coincide with the market cycles for each use, such as a mix of office, hotel and residential. And, unfortunately, the high vacancy rate for office space in the Chicago area, with the availability of modern premises, has made this facility – requiring extraordinary repairs and alterations – a less attractive option for potential office tenants. I would point out, as well, that attempting to comply with historic landmark regulations significantly limited our development options.

To date, our redevelopment efforts have included three distinct approaches. One was to keep the building intact, with a significant residential component. Unfortunately, market changes made this an extremely problematic solution.

We also explored the "telecommunication hotel" concept, which appeared to be an ideal fit for the property. Regrettably, the "dot-com" crash of 2000, the market downturn following 9/11, and subsequent changes to banking regulations, requiring financial institutions to locate operations centers away from downtown areas, forced us to abandon this plan. Of course, in the post-9/11 environment, the fact that the building straddles a major expressway and active rail operations reduced interest in the site.

Most recently, our direction has been to work around the most challenging areas of the building and pursue a proposal for a more conventional and marketable floor plate, again with a residential component. Because this plan does not involve obtaining special historic consideration and its associated tax credits, we are guardedly optimistic regarding its prospects.

I would emphasize, however, that each development proposal requires a great deal of time. Detailed plans must be developed and we must work with the appropriate federal, state and local government agencies to satisfy a wide range of requirements and obtain the necessary support.

Our developer has made a significant investment in finding a profitable use for the facility – and remains fully engaged. We are also continuing an active dialog with the City of Chicago which has a keen interest in the development of the property – which has become a landmark for local residents. While this has been a difficult and lengthy process, it does underline the fact that the Chicago project is one of a kind. Our experience with it is certainly not indicative of our overall success in moving other properties from our rolls. The transfer of this property remains a top priority and we will continue our efforts to complete it to the satisfaction of all parties and without unnecessary delay.

Certainly, this type of situation, while the exception rather than the rule for the Postal Service, is not unknown in the private sector. As an example, a former Sears warehouse in Boston, physically similar to a large Postal Service mail processing center, and located amid Harvard University medical facilities, took 20 years to redevelop. I do not suggest for a moment that a similar time line is acceptable for the Chicago property. However, it is illustrative of the fact that the very nature and location of some buildings can inhibit their development potential.

We have had – and continue to have – success with the sale of other large facilities. Just last month, we sold our historic Memphis, Tennessee property for $5.3 million. Sale of a participation in the income from a ground lease on New York City's Lexington Avenue resulted in revenue of $130 million. And, over the last several years, the sale of major mail processing facilities in Los Angeles and Denver contributed more than $60 million in revenue. Because the sale of the Memphis property reflects an immediate need on the part of the buyer, we will avoid the costs of carrying it as a vacant property. In fact, on the day we vacate the site, we will turn the keys over to the new owner.

In conclusion, I would like to assure you that the Postal Service fully recognizes and supports the need to maintain a facility network that provides maximum levels of efficiency. This is a key component of our mission of providing affordable, universal mail service for everyone in America. As I have explained, our experience in removing unneeded properties from our rolls in a fiscally responsible manner has been successful. We will continue this strategy. We appreciate your interest in, and your support of, these goals. I look forward to working with you in the future, and I will be pleased to answer any questions you may have.

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HOLD UNTIL RELEASED
BY THE COMMITTEE

STATEMENT OF

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(INSTALLATIONS AND ENVIRONMENT)

BEFORE THE SUBCOMMITTEE ON
FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY
OF THE SENATE HOMELAND SECURITY AND GOVERNMENT AFFAIRS COMMITTEE

February 6, 2006

Mr. Chairman and distinguished members of this Subcommittee, I appreciate the opportunity to appear before you today to address how the Department of Defense manages and disposes of underutilized and vacant real property assets.

The Department currently manages over 570,000 buildings and structures with a plant replacement value of over $650 billion, and over 46,000 square miles of real estate. We have developed models and metrics to predict funding needs and have established goals and performance measurements that place the management of Defense infrastructure on an objective, business-oriented basis.

The Department of Defense recognizes the long-term challenges associated with its real property and facilities. The Department has developed a strategy and several tools to address these challenges. The President's Management Agenda recently added the stewardship of federal real property as a new initiative. Since the beginning of the initial reporting on the President's Management Agenda scorecard, DoD has continued to improve in the scoring for real property, currently rated as "Green" for Progress and recently elevated to "Yellow" for current status. The Department is a full participant in the Federal Real Property Council established by Executive Order 13327 and just successfully completed the submission of the data requested by the Council from all land-holding agencies.

Working in full cooperation with the military services and other Defense components, the Department set out in 1997 to build a corporate-wide inventory of assets. The idea was and remains that the Department's funding requirements for installations is a function of the assets currently on hand and planned for the future. Hence, an accurate inventory and a forecast of those assets are fundamental to determining and assessing budget requirements. The Department is continuing to improve its inventory process and is working extensively in the interagency process to support a more useful federal inventory that can be used for management purposes.

In 1998, the Department set out on a six-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later, we concluded that effort by exceeding our target - removing a total of 86 million square feet. As part of a continuing effort to dispose of unneeded facilities, the Department recently completed a new survey of demolition requirements.

In 2001, the Department issued its first ever Defense Facilities Strategic Plan. In September 2004 we issued a comprehensive, capabilities-based, and performance-oriented Defense Installations Strategic Plan (DISP). Our new plan begins to more fully integrate environmental management systems, safety, and occupational health into a comprehensive approach to asset management. The 2004 plan addressed recommendations made by the Government Accountability Office (GAO) and was approved by OMB as being consistent with the guiding principles of the Federal Real Property Council in meeting the objectives of the President's Management Agenda. The Department issued a supplemental brochure in 2005 to update the 2004 DISP. This year the DISP will be completely reviewed, re-written as needed and a new version will be issued.

Managing Real Property Inventory

Managing our facilities assets is an integral part of comprehensive asset management. The quality of our infrastructure directly affects training and readiness.

Facilities sustainment, using primarily operations and maintenance-like[1] appropriations, funds the maintenance and repair activities necessary to keep an inventory in good working order. It includes regularly scheduled maintenance and major repairs or replacement of facility

[1] Includes O&M as well as related military personnel, host nation, and working capital funds.

components that are expected to occur periodically throughout the life cycle of facilities. Sustainment prevents deterioration and preserves performance over the life of a facility.

To forecast funding requirements for sustainment, we developed the Facilities Sustainment Model (FSM). FSM uses standard benchmarks drawn from the private and public sectors for sustainment costs by facility type and has been used to develop the Service budgets since fiscal year 2002 and for several Defense Agencies beginning in fiscal year 2004.

Recapitalization is the second step in our strategy. Restoration and modernization, collectively termed recapitalization, provide resources for improving facilities and is funded with either operations and maintenance or military construction appropriations. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident or other causes. Modernization includes alteration of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years.

A key component of our facility program, the Military Construction appropriation, is a significant contributor to the Department's comprehensive approach to asset management practices. Military Construction funds enable the Department to transform in response to warfighter requirements, to enhance mission readiness, and to take care of our people. We do this, in part, by restoring and modernizing our enduring facilities, acquiring new facilities where needed, and eliminating those that are excess or obsolete.

Real Property Inventory

In accordance with Section 2721 of title 10 United States Code, "Real Property Records", the Military Departments and Washington Headquarters Service, the Washington area leasing field activity, maintain an accurate and complete real property inventory for all unclassified real

property assets (land and facilities) in which they have real property interest. DoD currently has five independent reporting systems that feed the Office of the Secretary of Defense (OSD) Facilities Assessment Database. The Department recognized the limitations in these independent reporting systems and has developed a business enterprise architecture that will better support our warfighter by making the data more accurate and readily available to all potential users.

The DoD, as of September 30, 2005, owns 479,648 facilities (buildings, structures and utilities), leases 10,839 facilities, and manages another 80,732. The facilities DoD manages include assets we are given rights to use but do not actually own or lease such as NATO facilities or state-owned facilities or facilities provided by other Federal agencies.

The costs associated with operating and maintaining DoD facilities in FY 2006 totaled $45.34 billion. The plant replacement value of owned space (buildings, structures and utilities) in FY 2005 dollars is nearly $660 billion.

The Department provides specific instructions as to what, how and when real property inventory data is reported as directed by Section 2721 of title 10 United States Code, "Real Property Records". All assets that DoD holds interest (and there are nine different categories of interest) are reported annually to OSD. At this time, each Military Department maintains its own native database, which maintains an extensive amount of common information on each facility as well as any Service specific additions. A specific portion of this data is passed to OSD annually and serves as the basis for the Facilities Assessments Database, which is used by the Department on all matters relating to the existing real property inventory. Current business transformation efforts are significantly improving the existing inventory process through efforts to standardize data collection and capture within the Department.

Unused Leased And Owned Properties

One of our identified weaknesses in real property inventory reporting is the ability to accurately identify with confidence, vacant and underutilized properties. During BRAC analysis this limitation again surfaced and special data calls had to be conducted to capture such data. Realizing this limitation, the Department initiated changes to reporting requirements and by September 30, 2006, will begin receiving from our Military Departments vacant and underutilized property data. At that time, DoD should be in a better position to answer specific questions concerning vacant and underutilized properties.

Process For Disposing Of Unused Assets

The management of the Department's real property inventory is, with the exception of the Pentagon Reservation, the responsibility of the Military Department that has custody of the underlying real property asset. In accordance with the Federal Property and Administrative Services Act (FPASA) of 1949, when a Military Department, such as the Army, Navy or Air Force, determines that real property under its control is excess to military requirements it must report the property to the General Services Administration (GSA) for disposal. GSA is authorized by the Act to be the real property disposal agent for the Federal Government.

Before the Military Department reports the property asset as excess to GSA, it must screen the property asset within the Department of Defense to confirm that there is no longer a military need for the property asset. If the real property asset is not needed by any other DoD Component, then the Military Department that is excessing the real property asset must complete a Report of Excess, to include the required environmental documentation, and then may formally report the real property asset as excess to GSA. GSA will screen the real property asset with other Federal agencies to determine if there are any other Federal uses for the property. If no Federal agency expresses interest, the property is determined to be surplus Federal property and

then GSA will screen the real property asset with state and local governments to see if there is interest for the property at those levels. If no interest is determined, GSA will then place the real property asset up for public sale.

Challenges

With the Department's huge inventory of land and facilities the challenge is to continually ensure that we have the land and facilities we need, where and when we need it, to support the warfighter. The Department continually evaluates its requirements by working together with Military Service representatives and the Installation Commanders to determine what is needed to perform the mission.

Since the vast majority of our real estate assets are military bases, security and access issues limit the opportunities for compatible private sector joint use of underutilized land and facilities. Where circumstances permit, DoD seeks to leverage the value of underutilized property by making it available for joint private sector uses that are compatible with military mission requirements. DoD obtains not less than fair market value compensation, in cash or in kind, that defrays other infrastructure costs.

DoD Demolition Program

Many unused or underutilized DoD facilities have outlived their useful life and are not available for reuse – the only option is to either minimally maintain these assets or perform demolition. The Department of Defense executes a robust program designed to identify and eliminate excess and obsolete facilities. The process includes a comprehensive survey conducted by the Military Departments and selected Defense Agencies to identify all types of real property which are not needed or are no longer adequate for their intended purpose. Once

identified, these facilities are programmed for elimination through demolition or another means of disposal.

Because excess and obsolete facilities consume scarce resources just to meet minimum safety and maintenance requirements, that, in and of itself, is an incentive to dispose of them so the program is well supported by installation commanders. That said, and in light of the fact that the Military Departments have been pursuing a focused disposal program for several years, one of the main challenges now is the consolidation required to maximize available adequate space. The less complicated disposals have been accomplished, and those remaining can generate a requirement for renovation of other facilities or construction of new facilities.

The success of the focused demolition and disposal program is demonstrated in the implementation of Defense Reform Initiative Directive # 36 of May, 1998. That initiative directed the Military Departments to eliminate 80 million square feet, including over 8,000 structures, by 2003. The Department exceeded that objective by eliminating over 86 million square feet. The Department is continuing this initiative, and in a survey completed in December, 2004, identified an additional 66 million square feet to be eliminated. The Department's objective is to eliminate those facilities by FY 2013.

Successes

Since 1988, the Department has had statutory authority to restructure its land and facilities commensurate with changing missions in accordance with the legislatively mandated Base Realignment and Closure Process (BRAC). The Secretary of Defense directed that BRAC must rationalize our infrastructure to our force structure, enhance joint capabilities by improving joint utilization, and convert waste to warfighting by eliminating excess capacity. The four BRAC Commissions, 1988, 1991, 1993, and 1995, resulted in the closure or realignment of 152

major installations and 235 smaller installations. The four initial BRAC rounds have produced approximately $17 billion in net savings through 2001, and are generating about $7 billion in savings annually.

Congress authorized BRAC 2005 because it recognized that BRAC is the only process that can accomplish the infrastructure rationalization required to position the Department for the 21st century. While every one of our installations has a superb history of supporting the defense of this nation, the fact remains that our base structure cannot remain static in the face of the impact of new threats and technology on our warfighting capability. As such, we must consider closing some installations and realigning others in order to optimize our infrastructure and to ensure the needed physical capacity is positioned and configured to make the most effective and efficient contribution to operations. The resulting 2005 BRAC round recommendations will affect over 800 locations (25 major closures, 24 major realignments, 765 lesser actions) and current estimates indicate we will save approximately $4 billion annually and $36 billion over 20 years in Net Present Value.

A well supported, capabilities-based force structure should have infrastructure that is best sized and placed to support emerging mission requirements and national security needs. DoD must configure its infrastructure to maximize both warfighting capability and efficiency. Through BRAC and the global posture changes the Department will support the warfighter more effectively and efficiently.

In direct contrast to non-BRAC real property disposals which are accomplished by GSA, the Department has been delegated authority from GSA to be the disposal agent for BRAC real property assets. Important to the success of these efforts is the flexibility each Military Department has to apply its delegated real property disposal authorities in a manner to be responsive to specific local circumstances. These disposal options, ranging from discounted

conveyances for public purposes to public bid sales, enable the Department to partner with affected communities as both seek opportunities for quick civilian reuse of former military installations. A closed installation is often the affected community's greatest asset for mitigating the closure impacts and charting a future that diversifies the local economy, builds on a community's strengths, adds local tax base, and satisfies community public facility needs.

The Navy sale of property at the former Marine Corps Air Station, El Toro, California, exemplifies a highly successful BRAC property disposal in which DoD used the public sale process to dispose of property in accordance with local community redevelopment preferences. It was the largest single BRAC public sale conveyance in DoD to date -- approximately 3,720 acres. After several years of local community debate and disagreement about whether to retain airport uses of the property, in March 2002, Orange County voters approved a ballot initiative that directed a change to the County's General Plan emphasizing recreational, educational, and residential uses. The City of Irvine subsequently annexed the property, and Navy worked in very close partnership with the City to formulate plans for the public sale of the property that were consistent with the expressed will of the local community.

The Navy marketed the public sale via an Internet website that provided extensive information about the property, and conducted the sale as an Internet auction in partnership with GSA. The auction concluded in February 2005 and the successful bid was of $649.5 million, the largest BRAC land sale revenue to date. The key to the success was the important partnership between the local governments, the development community, and the Federal government. This "partnership triad" allowed the local community to determine land use planning and zoning for the property, engaged the skills and abilities of the developers to transform the property into uses that benefit the community, enabled the Federal government to fulfill its mission to convey property back into productive public use and provides economic return to the Nation's taxpayers.

The sale proceeds are being used by the Navy to fund remaining environmental cleanup obligations at El Toro and other prior BRAC locations.

Conclusion

The Department is transforming its installations and business practices, to include the management and disposal of real property assets, through a comprehensive asset management strategy, and we are now seeing the results of that transformation. The BRAC 2005 effort is a key means to transform our infrastructure to be more flexible and to quickly and efficiently respond to the challenges of the future.

In short, we have made significant progress and we are well on our way to achieving our goals. In closing, Mr. Chairman, I sincerely thank you for this opportunity to address the Subcommittee on the Department's efforts to manage and dispose of real property assets.

U. S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY
Hearing entitled, "Big Ticket Waste: Are Empty Federal Buildings Emptying Taxpayers' Wallets?" 2.6.06

Questions for the Record from Chairman Tom Coburn, for Mark Goldstein, Government Accountability Office (GAO)

1. As your testimony states, there are many stakeholder interests involved in how the federal government carries out its property acquisition, management, and disposal.

a) What would you say is the most common stakeholder interest that prevents the federal government from carrying out the most cost effective or efficient property disposal?

GAO Answer: We have not analyzed which stakeholder interest most commonly prevents the federal government from carrying out the most cost effective or efficient property disposal. However, we have highlighted examples where competing stakeholder interests reflect other priorities. For example:

- The Department of Defense (DOD) has found that infrastructure reductions are difficult and painful because achieving significant cost savings requires closing installations and eliminating military and civilian jobs in the affected communities. DOD's ability to realign its infrastructure has been affected by parochialism among the military services, a cultural resistance to change, and congressional and public concern about the effects and impartiality of decisions.

- The Department of Veterans Affairs' (VA) environment contains a diverse group of competing stakeholders who could oppose realignment plans that they feel are not in their best interests, even when such changes would benefit veterans. For example, medical schools that use VA hospitals to train students have been reluctant to change long-standing business relationships. Also, organized labor has appeared reluctant to support planning decisions that result in service restructuring, even when such decisions are in veterans' best interests.

- Historically, proposed post office closures in urban, suburban, or rural areas, and changes to postal infrastructure by the United States Postal Service (USPS), have provoked intense opposition because post offices are part of American culture and business and are viewed as critical to the economic viability of small towns and central business districts. Members of Congress and other stakeholders have often intervened in the past when USPS has attempted to close post offices or consolidate facilities.

- The State Department's disposal of unneeded overseas property has, in some cases, been delayed pending resolution of disputes with host governments that were restricting property sales.

2. GAO has reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of property.

a) Are other agencies seeking this type of authority?

GAO Answer: Several agencies such as DOD, VA, USPS, and the National Aeronautics and Space Administration (NASA) have authority to enter into public-private partnerships or enhanced use leases. For example, VA has authority to enter into lease agreements with public and private entities for the use of VA space and land provided there is a beneficial redevelopment or reuse of the property that will include space for a VA mission-related activity or provide consideration that can be applied to improve heath care and service for veterans. There are two bills in the 109th Congress, H.R. 619 and S. 1611, that would provide the General Services Administration (GSA) with specific authority to enter into leases with non-federal entities to redevelop the Denver Federal Center. In prior sessions of Congress, bills, such as H.R. 2548 in the 108th Congress and H.R. 3947 in the 107th Congress, were introduced that provided GSA with enhanced real property asset management tools to enter into lease agreements with non-federal entities to redevelop excess federal real property. These earlier bills, which were not enacted, were not limited to a specific project and GSA could have used the enhanced management tools for any project provided certain criteria were met.

b) Would it be appropriate, and for which agencies/in which cases?

GAO Answer: As noted above, we believe that it would be appropriate for any agency to use public-private partnerships when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of property.

3. In your testimony you mention that GAO's Executive Guide: Leading Practices in Capital Decision-making; the Office of Management and Budget's (OMB) Capital Programming Guide; and OMB's revisions to Circular A-11 have attempted to provide guidance to agencies for making capital investment decisions. However, agencies are not required to use this guidance.

a) Should agencies be required to use some type of uniform guidance for making capital investment decisions?
b) What type of guidance do agencies generally use for making capital investment decisions?

GAO Answer: We have recommended that the Director of OMB require that agencies comply with the principles and practices of its Capital Programming Guide. We have also recommended that it be updated to address some implementation challenges that some agencies have pointed out.

In general, agencies are aware of and use various aspects of OMB's Capital Programming Guide, but, since it is not required, the degree to which agencies use it varies. For example, National Weather Service officials cited the establishment of a senior-level review board as stemming from guidance in the Guide. VA formulated its current process based on the principles and practices contained in the Guide. Eight other agencies with high levels of capital spending that we surveyed were aware of the guide and had implemented some of its principles.

Agencies identified some challenges in implementing the Guide. For example, it was noted that the Guide did not seem to fit programs of a research and development nature but rather was more applicable to longer-term operational acquisitions. Some agencies felt that some of the Guide's requirements are relatively burdensome and could be streamlined. We have recommended that OMB work with agencies to update the Guide to address the implementation challenges and streamline some of the requirements so they are not so burdensome. We will be discussing OMB's updating efforts with OMB as part of an engagement that is ongoing.

4. The fiscal year 2005 Consolidated Appropriations Act gave the General Services Administration (GSA) the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 to use for GSA's real property needs. This authority, however, was not given to GSA for fiscal year 2006.

a) Is GAO aware of whether or not and how this authority benefited GSA last year?

GAO Answer: According to information provided by GSA, during fiscal year 2005, GSA's Office of Real Property Disposal sold 11 former Public Buildings Service assets for a total selling price of $12,026,500 (see table 1 below for a list of the 11 buildings sold). Proceeds from these sales were deposited into the Federal Buildings Fund for reinvestment in GSA-controlled properties.

Table 1. FY 2005 GSA Sales of Federal Property

Name of Property	City	State	Sale Price
St. Cloud Federal Building	St. Cloud	MN	$675,000
GSA-DLA Stockpile Storage Site	Theodore	AL	$270,000
GSA Federal Building/PO	Tupelo	MS	$790,000
Clarksville Federal Building	Clarksville	TN	$385,000
Ardmore SSA Building	Ardmore	OK	$290,000
D-4 Warehouse	Clearfield	UT	$929,500
Hugo Federal Building	Choctaw	OK	$932,000
Fort Dodge Post Office and Courthouse	Fort Dodge	IA	$755,000
Sandpoint Federal Building	Sandpoint	ID	$750,000
Yeon Warehouse	Portland	OR	$1,750,000
Square 62	Washington	DC	$4,500,000
Total Selling Price			$12,026,500

Source: GSA.

5. The agencies appearing at this hearing expressed a) that there are points in the law when it comes to disposing of property that are unclear; and b) that streamlining the existing disposal laws would help them be more efficient in; and expedite the disposal process of underutilized and vacant buildings.

a) Has GAO studied the various legal requirements for agencies and the disposal process and if so, what were your conclusions?

GAO Answer: There are numerous legal requirements relating to the disposal of federal real property. The Federal Property and Administrative Services Act, as amended, (Property Act) governs the disposal of most federal real property. If a federal agency no longer needs a property to carry out its program responsibilities, it reports the real property as excess to its needs and the property is offered to other federal agencies. If another federal agency does not have a need for the property, it is determined to be surplus to the federal government and is offered under the public benefit conveyance program to state and local governments or certain qualified tax exempt non-profit institutions for specified purposes. The Stewart B. McKinney Homeless Assistance Act authorizes the use of underutilized, unutilized, excess, or surplus federal real property for homeless assistance. Property for the homeless takes precedence over all other public benefit uses.

In the disposal area, a range of laws intended to address other objectives presents challenges to agencies in disposing of unneeded property. For example, USPS is specifically precluded from closing small post offices solely for economic reasons. Furthermore, agencies are required under the National Environmental Policy Act to consider the environmental impact of their decisions to dispose of property. Agencies are also responsible for environmental cleanup prior to disposal, the costs of which can be considerable and can involve years of study. For example, we reported that St.

Elizabeths Hospital in the District of Columbia had medical wastes, possible soil contamination, asbestos, lead paint, and other hazardous substance conditions that would have to be assessed through two phases of study and ultimately addressed. For properties with historic designations, agencies are required by the National Historic Preservation Act to ensure that historic preservation is factored into how the property is eventually used. Additionally, most agencies are not authorized to retain the proceeds from the sale of unneeded property. Given that agencies are required to fund the costs of preparing property for disposal, the inability of most agencies to retain any of the proceeds acts as an additional disincentive. However, DOD, VA, USPS, and NASA are authorized to retain the proceeds which they receive under public private partnerships or enhanced use leases discussed in question 2 above.

b) How many agencies (and which ones) buy, sell, and dispose of real property, independent of GSA?

GAO Answer: Some federal agencies have their own authority relating to property acquisition and disposal. We have not recently assessed, or done a thorough review to identify, agencies across government that have their own authority. The following are a few examples of different agencies having authority to acquire and dispose of property. Under its general powers, the USPS has its own authority to acquire, lease, sell or dispose of property. DOD has authority to acquire properties for military construction and family housing. DOD also has authority to purchase properties that are limited in price to $750,000 or to lease property where the annual rent is limited to $750,000. DOD is also required to submit reports notifying Congress of these proposed transactions. DOD has authority to restructure its land and facilities in accordance with the Defense Base Closure and Realignment Act of 1990, as amended. In closing or realigning military installations, the Secretary of Defense is authorized to take such actions that are necessary to close or realign the installation which includes acquiring land, entering into leases, and disposing of land. For DOD property that is not part of the Base Realignment and Closure (BRAC) process, GSA is the disposal agent under the Property Act, unless Congress specifically authorizes DOD to use its BRAC authorities as it did in 2003 with the Roosevelt Roads Naval Station in Puerto Rico.

The Secretary of Veterans Affairs has authority to acquire sites for medical facilities and to construct VA medical facilities. In 2004, VA was authorized to transfer real property under its jurisdiction to another department or agency of the federal government, to a state, or any public or private entity provided it receives fair market value for the property. Property may be transferred for less than fair market value if the transfer is made under a grant relating to a provider of services for homeless veterans. Under the terms of the transfer made to a homeless provider, the property reverts back to the United States if it is used for any purpose other than what it was initially transferred for. NASA has its own authority to acquire real property by purchase, lease, condemnation or otherwise, and to construct, improve and maintain laboratories, research and testing sites, and facilities. NASA also has authority to dispose of its property when it is no longer needed in accordance with the Property Act.

6. Executive Order 13327, entitled "Federal Real Property Asset Management" requires the Administrator of GSA establish and maintain a single, comprehensive database of all real property in executive branch agencies, except when otherwise required for reasons of national security. However, there is no annual reporting requirement for agencies' to list their properties and their status (utilized, underutilized, vacant, etc.)

a) Does GAO recommend any parts of Executive Order 13327 be put in statute?

GAO Answer: We support the enactment of the requirements of the executive order into law. This would serve to elevate their importance and show that Congress and the Administration are unified in pursuing real property reform.

b) Are there additional areas, like annual reporting, that GAO believes would complement the President's Executive Order?

GAO Answer: A transformation strategy for federal real property would complement the executive order. We have recommended the development of a transformation strategy for federal real property as part of our performance and accountability and high-risk reports. Because of the breadth and complexity of real property challenges, the longstanding nature of the problems, and the intense debate about potential solutions that will likely ensue, we have concluded that such a strategy is needed. The additional step of developing a transformation strategy would provide decision makers with a roadmap of actions for addressing the underlying obstacles, for assessing progress government wide, and for enhancing accountability. An annual reporting requirement tied to the transformation strategy could serve as the vehicle for agencies to report on progress.

7. As you know, last October the House Government Reform Committee approved a bill, "the Federal Real Property Disposal Pilot Program and Management Improvement Act." This bill would expedite the disposal of federal excess, surplus, and underperforming real properties through a five-year pilot program; and codify the Federal Real Property Council.

a) Does GAO believe there are key elements to efficient and effective property disposal that are missing from this legislation? If so, what are they?

GAO Answer: The objectives of the bill and several of its provisions have strong conceptual merit. Because the proposed legislation was intended to be a pilot program, we would not suggest additional elements until stakeholders could assess results and determine if such an effort should continue, be improved, or be expanded.

Chicago Field Hearing on Federal Real Property, 2/6/06
Questions for the Record for GAO from Senator Carper

1. Do we have a government-wide estimate of the number of buildings or square feet of building space that are vacant? Is there an estimate of how much in total it costs taxpayers to maintain this property? If these estimates aren't available, how far away are we from getting a better sense of what these numbers are?

GAO Answer:
While we do not have an estimate of the number of buildings or square feet of building space that are currently vacant, the General Service Administration (GSA) is developing a tool to track this information government wide. GSA's Federal Real Property Profile (FRPP) is a centralized database of all federal owned and leased assets including buildings, land, and structures. According to GSA, the FRPP will track vacant space by classifying whether the space is utilized, underutilized, over utilized or not utilized. In addition, the Federal Real Property Council is currently developing performance measures to track space utilization rates government wide.

Though we currently do not have an estimate of how much in total it costs taxpayers to maintain vacant federal property, we continue to believe that the magnitude of the problem with underutilized or excess federal property puts the government at significant risk for wasting taxpayers' money and missing opportunities to benefit taxpayers. Continuing to hold excess or underutilized property can result in significant costs for staff time spent managing the properties and for maintenance, utilities, security, and other building needs. Also, in addition to day-to-day operational costs, holding these properties is costly for the government, because these buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government.

2. How much progress has OMB made in developing a government-wide strategy for property management? Do most agencies even have the staff or expertise available to them to be more strategic about their property management?

GAO Answer:
Although OMB has not yet developed a government wide transformation strategy for federal real property management as GAO has recommended, OMB has made considerable progress toward addressing the long-standing problems in managing federal real property. In particular, on February 4, 2004, President Bush signed Executive Order 13327, "Federal Real Property Asset Management," which directed all major agencies to establish Senior Real Property Officers, who will be held accountable for the effective management of agency real property. The executive order also directed agencies to determine what it owns, what it needs, and what it costs to manage its real property. Agencies are also directed to develop and implement asset management plans, develop and monitor real property performance measures, and dispose of properties that are not needed. The executive order also created the interagency Federal Real Property Council (FRPC) to develop guidance, serve as a clearing house for best practices, and facilitate the efforts of the Senior Real Property Officers.

The executive order and OMB's related actions are clearly positive steps toward better federal real property asset management. However, GAO believes there is still a need for a comprehensive, integrated transformation strategy for real property to build upon the executive order. More specifically, the additional step of developing a transformation strategy would provide decisionmakers with a road map of actions for addressing the underlying obstacles, for assessing progress governmentwide, and for enhancing accountability for related actions.

We have not assessed whether most agencies have the staff or expertise available to them to be more strategic about their property management. However, the establishment of a Senior Real Property Officer is a positive step to ensuring that agencies are well-equipped with staff and expertise. Recurrent agency participation in FRPC committee meetings could also help to encourage knowledge sharing among federal agencies.

3. I'm interested in the authority the VA has to lease out vacant property to individuals interested in making use of it. Is this something that can or should be expanded elsewhere throughout the federal government? How has the VA's management of its vacant or under-used property improved since it received the leasing authority?

GAO Answer:
VA has experienced some challenges in leasing excess property through its enhanced-use leasing program. Because of this, we believe that expanding this authority to agencies throughout the government should be done with caution. If arrangements can be made that make economic sense for the government, enhanced-use leasing could be an option for agencies to lease their excess property.

GAO has reported that VA managers face difficulties in leasing excess property to non VA organizations under its enhanced-use lease authority. Specifically, the length of time needed to review and approve leases poses a challenge to VA in leasing excess property. For example, to establish leases, VA has had to negotiate with entities in the community that are interested in leasing VA property and obtain public comment and perform multiple rounds of review and approval by VA network and headquarters officials. The leases VA has established include, for example, partnerships for parking garages, child development centers, and senior housing. Contributing to the length of the leasing process is a requirement that VA quantify the benefits that veterans will likely derive from a lease— a task that officials say can be difficult and time consuming. For example, if VA establishes a lease for a child development center that may help in the recruitment and retention of VA staff to provide health care, VA is required to quantify the benefits to veterans of the child development center.

Another difficulty that has hindered VA's leasing activities has been that some local managers lacked the expertise needed to develop, negotiate, and finalize leases. Such expertise includes legal, real estate, marketing, and financial skills. The VA Capital Asset Realignment for Enhanced Service (CARES) Commission found that the lack of expertise made it difficult for VA to attract potential investors and navigate local zoning and land use requirements. Although the Commission noted that some VA networks had been successful in arranging leases for excess property, relatively few leases have been established since 1991, when VA was given authorization to lease excess property.

VA is taking steps to address the difficulties it faces in developing enhanced-use leases of its excess property. To streamline VA's preparation of leasing proposals, VA recently granted authority to its capital asset managers to make some enhanced-use leasing decisions, such as conducting feasibility studies, creating enhanced-use lease business plans, and writing leases and memoranda of understanding. VA expects this will expedite its leasing process. The new capital asset managers will also be responsible for identifying leasing opportunities and negotiating leases. To facilitate leasing activities, including some that were identified in CARES, VA is making real estate, legal, marketing, financial, and other types of expertise available to network managers through a contract awarded in April 2005. According to VA officials, this expertise will help network managers develop key information, such as the potential market value of VA's excess property.

U. S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY
Hearing entitled, "Big Ticket Waste: Are Empty Federal Buildings Emptying Taxpayers' Wallets?" 2.6.06

Questions for The Record from Chairman Tom Coburn, for Bill Matthews, GSA

1. **Mr. Goldstein's testimony states that there are many stakeholder interests involved in how the federal government carries out its property acquisition, management, and disposal.**

    a) **What would you say is the biggest stakeholder interest, whether it is Members of Congress, local governments, advocacy groups, the general public-that hinders your agency from carrying out property disposal in an efficient, cost-effective manner?**

One particular hindrance to the disposing of surplus real properties in an efficient and cost-effective manner is the alternate procedures prescribed by the McKinney-Vento Homeless Assistance Act. These requirements direct the Department of Housing and Urban Development (HUD) to make a determination within 45 days as to whether government-owned property is "suitable" to meet the needs of the homeless. These determinations are rendered by HUD without a physical inspection but rather from a simple checklist. This role might be better performed by a real estate organization because of the potential for complications arising from an improper determination. A finding of "suitable" should take into consideration the costs or expenses necessary to upgrade systems to comply with local building, electrical or fire codes which factor into the granting of a Certificate of Occupancy. As presently configured, the downstream effect has resulted in numerous properties being declined by homeless organizations causing delays in the disposal process. Associated with this hindered procedure is the absence of any provision in the law that allows a role for the local community to offer an alternate and acceptable site to homeless organizations when both are vying for the property. Because the law grants a "priority of consideration" for the homeless in the disposal process, public bodies are forced to seek special legislation to acquire the property.

2. **GAO has reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of property.**

   a) **Has GSA ever asked Congress for the authority to enter into public-private partnerships?**

   GSA included a provision for Public Private Partnerships in the original property act reform legislation in 2001, but it did not receive support since it received unfavorable scoring treatment from the Congressional Budget Office.

   In a traditional partnership sense, the Government would obtain an equity stake in the venture but the scoring rules preclude such a relationship because the resulting space lease scores as a capital lease.

   b) **Would this type of authority be helpful in managing GSA's real property portfolio?**

   Yes, but the Congressional Budget Office's scoring rules would have to be modified accordingly.

3. The fiscal year 2005 Consolidated Appropriations Act gave GSA the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 to use for GSA's real property needs. This authority, however, was not given to GSA for fiscal year 2006.

a) Can you explain how this authority helped GSA last year?

Retention of proceeds authority allows the net proceeds from the disposal of federal real property to be placed in the Federal Buildings Fund. This funding is then available to Congress to fund reinvestment or the construction of new federal buildings. Additionally, this authority provides incentives for portfolio managers to release underutilized assets so that the restructuring of GSA assets could be accomplished.

b) What were you able to do with the proceeds earned from getting rid of unneeded buildings on your inventory?

Congress authorizes GSA to use funds in the Federal Buildings Fund, including funds received from rental payments as well as net proceeds from the disposal of unneeded buildings in our inventory. These funds are used to cover the costs for real property capital needs.

c) What barriers prevented you from getting this authority again this year?

GSA understands that support for authority to retain the net proceeds from the disposal of federal property for fiscal year 2006 as well as permanent retention of proceeds authority has been hindered by the perceived scoring implications of such authority. The President's FY 2007 budget includes a proposal that allows GSA to retain the net proceeds of sale from the disposal of real property assets. The proposal narrows the scope of the authority to disposition through sale, thereby addressing the perceived scoring implications.

4. On page 4 of your testimony, you state that there were 89 leased facilities that were determined to be underutilized with operating costs totaling $6.2 million in fiscal year 2005. You stated that at the end of fiscal year 2005, GSA's leased vacancy rate was at a record low level, below 1.5 percent.

What does this 1.5 percent equal, in terms of numbers of facilities?

At the end of FY 2005, per our Federal Real Property Profile data submission, GSA had 7,048 leased buildings. Out of those 7,048 locations, only 247 had vacant space (equating to the 1.2% or below 1.5% in Mr. Matthew's testimony). Out of the 247 leased buildings with vacant space, only 89 had enough vacant space to be classified as underutilized using the Federal Real Property Council standards.

5. You site the internet-based sale of the Yeon Warehouse in Portland Oregon as a successful sale of an underutilized asset. This 55,000 square foot, 75 year-old property sold for $1.75 million, which is 17 percent over fair market value.

a) What made this sale different or more successful than other sales?

Yeon Warehouse was used as an example in the testimony to demonstrate one of many of our successful dispositions. This property is located in an industrial area of Portland and surrounded on 3 sides by a large foundry. The Foundry (Esco) needed the warehouse to expand their operations. They had expressed their need for the property as soon as they knew that it was being excessed. They were also renting space in the building. We knew that most of our interested (and qualified) parties would be industrial operations in the area. We targeted our advertising and other marketing efforts to this type of potential buyer. We felt that as long as we had several active bidders and used the on-line auctions, the bidding would set the true market value and could easily exceed that value based on Esco's need for the property. While the second highest bid may represent true market value, Esco's particular business need for the property resulted in a sale price 17 percent over that value.

b) How has GSA gleaned from this experience and used its successful points to get rid of other underutilized assets?

GSA has learned to be very specific in their marketing efforts to reach a maximum number of interested and qualified buyers. Each property is different and each has its positive aspects that must be marketed to potential buyers. GSA has experienced great success in internet sales and continues to use this method in addition to the traditional means to maximize the return to the government.

c) Are there risks involved in internet auctions, and if so, what are they?

GSA makes a determination, on a case-by-case basis, regarding the most effective method to sell a federal real property that is excess to the government's needs. There is no inherent risk involved with sale by internet auction. For

properties that have a specified use, the internet auction is quite effective in tapping a greater range of bidders. GSA has historically been able to maximize the sale price for properties where we have a large number of interested bidders. Smaller, less commercial, rural properties are probably not ideally suited for an internet auction where the only interested buyer may be the adjoining land owner. In this case, GSA would select a different sale method, such as a different auction method.

d) Is it a priority for GSA to make the public aware of excess property for purchase? If so, how do you communicate this with the public?

Yes, it is a priority of GSA to make the public aware of surplus property for sale. This is communicated through our on-line website as well as information for bid packages, specific advertising in newspapers, and on site (open houses, etc.).

Typically, federal property is a focus for the local community in thinking about development or reuse alternatives. Several requirements in our disposal process afford the public information and opportunity for acquisition of the property. [References: A Guide to Buying Federal Real Estate and also Acquiring Federal Property for Public Uses] In addition to our screening notices, we will inform the public through the National Environmental Policy Act and the National Historic Preservation Act process. If the property is offered for sale, GSA uses a multi-tier approach to reach the broadest market available.

6. Net proceeds generated from the sale of GSA properties are usually directed into the Department of Interior's Land and Water Conservation Fund rather than GSA's Federal Buildings Fund. Instead of allowing GSA to be able to use the proceeds from the sale of a property for other needs at GSA, the money automatically goes into a fund at another agency.

a) Do you recall what the original purpose was for that process?

Originally, the Federal Property and Administrative Services Act of 1949 (40 U.S.C) directed the net proceeds from the sale of surplus property into the miscellaneous receipts account of the Treasury. The enactment of the Land Water and Conservation Act of 1965 stipulated that receipts from the sale of surplus property under the Property Act be covered into Interior's Land Water and Conservation Fund. However, several large land holding agencies have sought and since received authority to retain the sales proceeds including the Department of Defense, the US Coast Guard, the Department of Veterans Affairs, the Bureau of Land Management, and on a pilot-basis the US Forest Service.

b) Is it difficult for GSA to get one-time retention of proceeds authority?

GSA recently received authority to retain proceeds that was contained in the FY'05 Omnibus Appropriations Act. This is the only general retention of proceeds authority that GSA has been granted. Language was also included in the FY'05 Omnibus Appropriations Act that directed the sale of the Middle River Depot in Baltimore County, Maryland, and allowed GSA to retain the proceeds of sale for deposit into the Federal Buildings Fund. At this time, the President's FY 2007 budget includes a proposal that allows GSA to retain the net proceeds of sale from the disposal of real property assets. The proposal narrows the scope of the authority to disposition through sale, thereby addressing the perceived scoring implications.

c) What challenges does this process present to GSA with regard to selling property?

Currently, federal land holding agencies that lack the authority to retain proceeds from sale do not have a clear financial incentive to dispose of underutilized real property. For example, there can be significant up-front costs associated with the decision and process of disposal. Funds expended to conduct real estate due diligence and necessary environmental review and certification can be enormous (see Environmental Framework guide). Without the authority to retain all or a portion of proceeds from the sale of underutilized properties, motivation to reposition these assets is diminished.

7. How difficult is it for GSA to dispose of property that has been designated as historic landmarks?

GSA must comply with Section 106 of the National Historic Preservation Act when disposing of property with resources listed, or eligible for listing, on the National Register of Historic Places. This compliance involves consultation with the State Historic Preservation Officer (SHPO) and typically results in a Memorandum of Agreement documenting how the potential for adverse effects will be mitigated through documentation, deed notice and/or restrictive preservation deed covenants, or other measures. Disposals of especially significant historic resources, including those designated National Historic Landmarks (NHLs), often require additional outreach to stakeholders, which may include the Advisory Council on Historic Preservation (ACHP) or local community groups.

One of the Property Act's disposal authorities is the public benefit conveyance of real property for Historic Monument purposes. This authority allows GSA to transfer real property with historic resources, including NHLs, to state and local government bodies at 100% discount for historic monument purposes. Though the recipient must comply with use restrictions on the property, as enforced by the Department of Interior, the recipient may be allowed to use the property for revenue-producing activities. This authority provides a mechanism for GSA to convey a historic structure in a timely manner and provides assurance to stakeholders of its long-term preservation.

Through its Section 106 consultation, GSA has also structured other transfers and sales with preservation measures that mitigate adverse effects on historic resources. Disposals of significant historic resources may have greater complexity and may necessitate additional creativity and outreach. GSA, however, has proven experience working with vested stakeholders, complying

with the NHPA, utilizing its marketing expertise, and successfully divesting significant historic resources out of federal ownership.

a) What are the greatest difficulties GSA faces in adhering to environmental regulations when disposing of excess property?

There are many environmental laws, regulations, and Executive Orders that GSA and the excessing agency must consider when disposing of federal real property. GSA provides guidance to landholding agencies to assist in streamlining regulatory coordination and compliance with applicable law.

One of the largest hurdles for the Federal Government when disposing of real property is its compliance with the additional requirements of Section 120(h) of the Comprehensive, Environmental Response, Compensation and Liability Act, (CERCLA). CERCLA 120(h) only applies to real property transferred by the United States to non-federal entities. CERCLA 120(h) (3) requires the following statements in the deed of transfer for "any real property owned by the United States on which any hazardous substance was stored for one year or more, known to have been released, or disposed of:

(i) **to the extent such information is available on the basis of a complete search of agency files—**

(I) a notice of the type and quantity of such hazardous substances,
(II) notice of the time at which such storage, release, or disposal took place, and
(III) a description of the remedial action taken, if any;

(ii) **a covenant warranting that—**

(I) all remedial action necessary to protect human health and the environment with respect to any such substance remaining on the property has been taken before the date of such transfer, and
(II) any additional remedial action found to be necessary after the date of such transfer shall be conducted by the United States; and

(iii) **a clause granting the United States access to the property in any case in which remedial action or corrective action is found to be necessary after the date of such transfer.**

One of the biggest challenges for landholding agencies, especially those agencies with excess industrial property, is to sufficiently investigate hazardous substance activity on property being reported excess and to certify that "all

remedial action necessary to protect human health and the environment...has been taken." Acquiring adequate documentation from the landholding agency, both to comply with CERCLA 120(h) and to enable GSA to market commercial and industrial property, can be time consuming.

b) You mentioned streamlining some of the environmental regulations. Which laws make it most difficult to dispose of property in an efficient manner (meaning both time and cost-effective)?

The specific requirements of CERCLA 120(h)(3) for Federal agencies transferring property out of Federal ownership are referenced above. The statute specifies that the Government certify that all necessary environmental remediation with respect to hazardous substances on the property has been completed prior to transfer. This requirement has often added years to property disposals, requiring landholding agencies to seek additional appropriation for further environmental investigation and remediation. In 1996, CERCLA 120(h)(3) was amended to add subsection (C) to authorize the transfer of property and the deferral of the deed covenant of contaminated property before completion of the required CERCLA response action in certain circumstances. This "Early Transfer Authority" requires the concurrence of the State's Governor, and EPA at a site listed on the National Priorities List, and a determination that the property is suitable for transfer; it also mandates several specific assurances and requirements.

Over the past decade, both the marketplace and environmental regulatory agencies have developed a greater comfort with brownfields transactions and redevelopment. This movement, with its evolving regulatory incentives and private sector tools, has tracked with the Government's growing sophistication using Early Transfer Authority. Evolving brownfields tools include land use controls, innovative cleanup technologies, environmental insurance and state voluntary cleanup programs. Such incentives and innovations have bolstered the

federal government's ability to characterize, safely transfer, and promote the cleanup and redevelopment of its contaminated properties.

While contamination adds greater time and complexity to the disposal process, GSA has developed sophistication in disposing of these properties. GSA works closely with its landholding agencies to achieve regulatory support for early transfer and to acquire sufficient information to quantify risk for potential purchasers. GSA has structured several early transfers that include privatization of the Government's environmental remediation responsibilities. With the necessary assurances in place, impressive cost-savings have been achieved through the private sector's combined remediation and redevelopment actions. GSA expects even greater streamlining of cleanup and redevelopment on former federal properties through the continued sophistication of the brownfields marketplace.

8. As you know, last October the House Government Reform Committee approved a bill, "the Federal Real Property Disposal Pilot Program and Management Improvement Act." This bill would expedite the disposal of federal excess, surplus, and underperforming real properties through a five-year pilot program; and codify the Federal Real Property Council.

a) Is GSA supportive of this legislation, and do you believe there are key elements to efficient and effective property disposal that are missing from this legislation? If so, what are they?

GSA supports the goals embodied in the "Federal Real Property Disposal Pilot Program and Management Improvement Act." However, while we understand the reasons why the return of proceeds incentive is low (only 10% in H.R. 3134), GSA is concerned that such a low incentive, coupled with a cap on the percentage of proceeds that can be used to cover the disposal costs, will not overcome the budgetary hurdle most agencies face when they consider the costs to excess and dispose of underutilized real property.

Questions and Responses for the Record from
James M. Sullivan, Deputy Director,
Office of Asset and Enterprise Management,
U.S. Department of Veterans Affairs

February 6, 2006

Hearing entitled, "Big Ticket Waste: Are Empty Federal Buildings Emptying Taxpayers' Wallets?"

Question 1: Mr. Goldstein's testimony states that there are many stakeholders interests involved in how the federal government carries out its property acquisition, management, and disposal.

a) What would you say is the biggest stakeholder interest, whether it is members of Congress, local governments, advocacy groups, the general public-that hinders your agency from carrying out property disposal in an efficient, cost-effective manner?

Response: The Department of Veterans Affairs (VA) has a number of stakeholders (e.g., other Federal Agencies, veteran service organizations (VSOs), veterans, Congress, state and local politicians and governments, neighboring land owners, local labor unions, community activists, and federal, state and local historic preservation communities that have a legitimate interest in VA projects. Under the enhanced-use leasing program, stakeholders are afforded the opportunity to express their interest through direct contact with VA. This may be done through the public hearing process (mandated under 38 U.S.C. § 8163) or through the stakeholders own initiative. VA's Capital Asset Realignment for Enhanced Services (CARES) process seeks stakeholder input at public hearings with a local advisory panel, where the public is invited to submit written and oral comments. VA's experience has been that the comments received from stakeholders for the most part have been relevant, insightful, and constructive. Stakeholder interest also is necessary in meeting our environmental assessment responsibilities under the National Environmental Policy Act, 42 U.S.C. §§ 4321-4370d.

Veterans are VA's biggest stakeholder. VA's overall stakeholder interests vary by individual proposal. Each enhanced-use leasing proposal requires a public hearing to provide stakeholders the opportunity to express support, opposition, or clarification regarding the project. Veterans, Members of Congress, local labor unions, and advocacy groups, etc. all attend these meetings. VA has found the stakeholders most involved in the VA public hearing comment process to be veterans, VSOs, followed by local government(s). VA believes that stakeholders'

insight, advice, and assistance is a critical element of VA's enhanced-use leasing program.

VA also works to be in compliance with Section 106 and 110 of the National Historic Preservation Act (NHPA) and address the comments made by other stakeholders whose mission it is to preserve historic property.

Question 2: GAO has reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of property. This authority appears to be an important tool for effectively and efficiently managing the Department of Veterans Affairs' real property portfolio.

a) When did VA request enhanced-use authority from Congress, and what were the reasons for requesting such authority? In other words, what were the conditions of VA's real property portfolio that caused you to consider this option?

Response: VA's enhanced-use leasing statute (38 U.S.C. §§ 8161-8169) was originally authorized in August 1991, and is now in effect through December 31, 2011. The enhanced use authority provides VA with a valuable mechanism to leverage its underutilized assets to provide for the preservation and improvement of those assets, as well as to acquire in exchange, needed goods, services, facilities, and/or revenue not readily available through the budget appropriation process. Revenues received from our enhanced-use leases are redirected towards services to our nation's veterans. VA is interested in ensuring the authority is reauthorized, as well as made permanent, prior to the 2011 expiration.

b) Please explain, in detail, how a typical arrangement with a private firm is carried out.

Response: The cornerstone of VA's enhanced-use leasing authority is the out-leasing of underutilized properties and facilities to public or private sector entities to enhance the property and provide improved benefits and services through cash and/or in-kind consideration (e.g., space, services, construction) to VA. The following are the typical steps in an enhanced-use lease project:

1. VA medical center identifies available land and a potential use for the land
2. Secretary reviews and approves the initial enhanced-use concept
3. VA medical center develops concept plan
4. Concept plan is reviewed and approved by central office
5. Statute mandated public hearing conducted
6. Solicitation and negotiation of the lease

7. Office of Management and Budget (OMB) review (if the project involves a leaseback with annual payments above the threshold prescribed by OMB Circular A-11)
8. Statute mandated Congressional Notification (45 calendar day wait period)
9. Execution of the lease

Question 3: How difficult is it for VA to dispose of property that has been designated as an historic landmark?

a) What are the greatest difficulties VA faces in adhering to environmental regulations when disposing of excess property?

Response: The question refers to the term "historic landmark". For the purposes of answering this question, VA assumes that in the context of the question, the term is intended to include all properties designated as historic property under the National Historic Preservation Act (NHPA) by virtue of being listed or eligible for listing on the National Register of Historic Places (National Registry) by the National Park Service.

Summary Legal Background: Federal environmental regulations under the National Environmental Policy Act (NEPA) include consideration of "cultural resources" - defined as any properties or features that have intrinsic cultural value - generally historic buildings, historic objects, historic landscapes, or archeological sites. This requirement dovetails with the NHPA's requirements. In NHPA, section 110 requires Federal agencies to inventory and evaluate all real property, identify historic resources and list them on the National Register; section 106 requires Federal agencies to consider any undertaking's effect on the identified historic resources.

Compliance with Section 110 and Section 106 of NHPA must be completed prior to transferring eligible or registered historic property from VA ownership. It may also be necessary to complete archeological surveys before transfer. And, consultation and negotiation with the local public, the Federal Advisory Council on Historic Preservation (ACHP), respective State Historic Preservation Offices (SHPOs), and/or Tribal Historic Preservation Officers (THPOs) regarding the property's future must be completed prior to any such transfer.

VA acknowledges the important role the ACHP plays in preserving and restoring our nation's historic properties. As noted on page 3 of VA's previously-submitted full, written testimony, in 2005 VA successfully consummated a 75-year enhanced-use lease for a private sector entity's adaptive reuse of approximately 50 acres of land and 38 historic buildings at the Leavenworth, Kansas, medical center. The Leavenworth site was originally ranked #2 on the National Trust for Historic Preservation's list, "America's 11 Most Endangered Historic Places 2000".

b) Which laws make it most difficult to dispose of property in an efficient manner meaning both time and cost-effective?

Response: NHPA's Section 106 compliance process, implemented by 36 CFR Part 800 - "Protection of Historic Properties," requires VA to consult with preservation stakeholders, in particular the individual State Historic Preservation Offices as well as the ACHP to minimize and mitigate effects to the historic resource. VA is required to consult with stakeholders and negotiate agreements on future historic property usage and restrictions that work to strike a balance between a reasonable financial return and the public interest.

Question 4: Please describe briefly VA's Capital Asset Management System (CAMS) and how it works.

Response: VA's Capital Asset Management System (CAMS) is VA's portfolio and performance management system. CAMS is an integrated Department-wide system for all capital assets, extracts key data from several existing data source systems and provides a comprehensive inventory of capital, including real property. It contains accurate and current asset inventory information. Quarterly performance reports generated from CAMS will be used routinely in management decision-making at the Deputy Secretary's monthly performance review and by the Strategic Management Council. This review provides an additional avenue for improved information dissemination and more informed decision-making concerning VA real property management. Field personnel as well as headquarters will be able to use this information to identify areas of strength and areas that may need improvement.

a) Was it developed from inside the VA, or outside by a private firm?

Response: VA used ProSight, commercial off-the-shelf software, for CAMS. The software was modified to adhere to VA requirements by a private-sector integration team.

b) To your knowledge, are there other agencies that use the same or similar system to analyze, monitor, and manage their capital assets?

Response: There are other agencies that use software for management of information technology assets. VA has had many inquiries from other agencies regarding CAMS. VA is aware that other federal agencies use other similar products.

Questions and Responses for the Record from
James M. Sullivan, Deputy Director,
Office of Asset and Enterprise Management,
U.S. Department of Veterans Affairs

February 6, 2006

Hearing on "Big Ticket Waste: Are Empty Federal Buildings Emptying Taxpayers Wallets?"

Question 1: I understand from your testimony that the VA has just under 148 million square feet of space and that about 7 million square feet is currently vacant.

(a) Is the space that VA is currently leasing to third parties included in the 148 million square feet?

Response: In FY 2005, the Department of Veterans' Affairs (VA), owned 148,624,409 square feet of space in 5,301 buildings. Of its owned space, VA outleased *4,485,995* square feet (3 percent) for use by others including academic affiliates, non-profit organizations, and other organizations in return for in-kind consideration complimentary to VA's mission and cash consideration of over $900,000 in annual recurring revenue, as well as a one-time payment of $28 million.

(b) Do you know how much space the VA is currently leasing and how much of that space is vacant?

Response: Currently, VA is direct-leasing 7,422,349 square feet of space for its own use through 803 leases, of which a total of 9,165 square feet is vacant. The vacant space comprises a fraction of five active, larger leases throughout the country.

(c) How many total buildings are under the VA's control?

Response: In FY 2005, VA owned and controlled 5,301 buildings on 32,527 acres of land at 300 locations.

(d) How much does it cost the VA each year to maintain the vacant space it currently controls?

Response: Nationwide, in FY 2005, VA's costs to operate and maintain owned and direct-leased assets were equivalent to $4.98 per square foot, based on Federal Real Property Council definitions, for a total fiscal year 2005 cost of $758,867,828. However, the cost for vacant space is between $1-2 per square *foot,* to mothball and protect the infrastructure of these buildings for the safety and security of the VA medical center community.

Question 2: In your testimony, you discuss at length the VA's efforts to lease out vacant property.

(a) Is this authority you have to negotiate leases something unique to the VA?

Response: VA's enhanced-use (EU) leasing statute (38 U.S.C. §§ 8161-8169) was originally authorized in August 1991, and is now in effect through December 31, 2011. Other agencies also share this unique authority such as the Department of Defense and the National Aeronautics and Space Administration (NASA). The EU authority provides the Department with a flexible and valuable mechanism to leverage its underutilized assets, for which the agency has a continued need, to provide for the preservation and improvement of those assets, as well as to acquire, in exchange, needed goods, services, facilities, and/or revenue not readily available through the budget appropriation process. Revenues received from our EU leases are redirected towards services to our Nation's veterans. VA is interested in ensuring its authority is reauthorized, as well as made permanent, prior to the 2011 expiration.

(b) How has the management of your vacant or under-used property improved since you received it?

Response: Since the EU leasing authority was authorized in 1991, VA began the Capital Asset Realignment for Enhanced Service (CARES) process. VA uses its CARES "blueprint" to identify underutilized and unneeded assets. VA then follows a prioritized tier approach, pursuant to the Department's policy for "Managing Underutilized Real Property, including Disposal," to determine the most appropriate mechanism for managing such assets consistent with VA's mission needs as refined in the CARES process. The approaches to dealing with the identified assets, in order of highest priority, are as follows:

- Offering underutilized property to other VA entities and other federal agencies
- EU leasing
- Use of Sharing Agreements, Licenses, Outleases, Permits, and Easements
- Transfer through EU disposal, Capital Asset Fund transfer authority, State Extended Care
- Like-kind exchanges of property
- GSA disposal
- Additional options, which may include mothballing and demolition, with or without deconstruction

VA's experience has shown that sharing agreements and EU leases are the most effective mechanisms for reducing spending on these assets and generating revenue/in-kind consideration for veterans (not to mention increased tax receipts for the local community). By transferring the responsibility for maintaining this space to another party, these mechanisms provide the Department with significant costs savings and avoidance.

Over the past 14 years, VA has awarded 47 projects through the EU leasing authority. An additional 100 initiatives are being studied, of which 45 projects are currently "active." At the close of FY 2005, VA generated revenue from 4,971,815 vacant or underutilized square feet and increased revenue-generating space by 1,035,205 square feet from FY 2004 to FY 2005 through EU leases, outleases, and inter-agency agreements.

Question 3: Does the VA ever seek to sell off vacant property?

Response: Yes, as referenced in Question 2.b. above, we consider different approaches to disposal to manage underutilized capacity per VA policy, "Managing Underutilized Real Property, including Disposal." As VA implements the CARES recommendation, we will use all available tools, including disposal, to reduce our unneeded and underutilized inventory of space.

One example of VA disposal involved the Veterans Integrated Service Network (VISN) 12 in Chicago. The VISN implemented a CARES realignment decision in January 2005, for a 75-year EU lease of two parcels of land totaling 3.8 acres at VA's Lakeside campus to Northwestern Memorial Hospital (NMH). VA realized $28 million upon signing the lease. In October 2005, after the Secretary determined that the two parcels were no longer needed by the Department, VA, per 38 U.S.C. § 8164 and applicable lease terms, disposed of them to NMH in exchange for an additional $22 million. This is an example of a very successful leasing and disposal of underutilized VA property. These transactions resulted in a demonstrable improvement of services to eligible veterans by permitting VA to offset the cost of implementing CARES in the City of Chicago and other locations, and avoid future maintenance of aging health care facilities. This also ensured the continuation of quality medical care for Chicago area veterans through VA's use of monetary consideration from the Lakeside EU lease to fund additional FY 2006 capital improvements.

(b) Is it generally easier to find someone willing to lease an old VA building than it is to find someone willing to buy one?

Response: VA currently has no empirical data for this comparison. The EU leasing authority has provided VA with a valuable mechanism to leverage its underutilized assets to provide for the preservation and improvement of those assets, as well as to acquire, in exchange, needed goods, services, facilities, and/or revenue for improving services to our Nation's veterans. While the EU leasing program is one vehicle for managing excess property, its full potential as a capital asset management tool is realized when we use this authority to leverage our assets to acquire some needed commodities. VA may lease underutilized property on a long-term basis to non-VA users for use compatible with VA's mission.

In addition, the Department is implementing a VA Site Review Initiative that will review all of VA's underutilized assets and identify their associated encumbrances. Next, the Site Review Board established under the initiative will identify packages or bundles of assets available for disposal, including enhanced-use lease, to private sector developers in exchange for funds supporting VA's capital needs.

Questions for the Record from Senator Thomas R. Carper

"Big Ticket Waste: Are Empty Federal Buildings Emptying the Taxpayers' Wallets?"

February 6, 2006

Questions for Mr. Samra, Postal Service:

1. The commission President Bush put together a few years back to study the Postal Service found that the Postal Service has more processing capacity than it needs. They also found that processing productivity often varies from plant to plant because the Postal Service is still using older facilities that often cannot fully accommodate the newest, most state-of-the-art processing equipment.

   I know that the Postal Service is currently building a brand new, single-story processing facility just outside of Philadelphia. Is this facility the model for what the Postal Service would like to do around the country? What does a facility like the new one in Philadelphia allow the Postal Service to do with respect to cutting costs and finding efficiencies?

Improving operational efficiencies is one of the leading transformational strategies of the Postal Service. The agency is focused on capturing improvements from reviewing existing equipment and technology, and targeting new investments to further drive productivity gains. The Postal Service is examining facility capacities to consolidate operations and to transition from overlapping single-product networks to an integrated multi-product network. As a cost saving initiative, the Postal Service will focus on expanding its standardized processes, as well as to continue its focus on finding savings in equipment, technology and facilities.

2. You mention in your testimony the Postal Service's efforts to expand customer access to alternate retail options such as automated equipment and the Postal Service's own web site. I'm sure you can still go into any

post office in Chicago, however, and see people standing in line to mail a package or buy a book of stamps.

Does the Postal Service have a set of goals and timelines in mind for expanding alternate retail and making the public aware of it? Is the hope that alternate retail will just make lines shorter or will it replace post offices and make new post offices in growing communities less necessary?

Throughout its history, especially in recent years, the Postal Service has been initiating efforts to make postal services more accessible and easy to use.

Transformation initiatives enabled the Postal Service to greatly enhance and expand access to products and services. As a result of a number of innovative new solutions and improvements to traditional services, customers now have more ways than ever to transact postal business. By taking advantage of the power of the Internet and the reach of its delivery network, the Postal Service provided customers with a new level of access to products and services.

Through our website, *www.usps.com*, customers can obtain a number of services, such as buying postage, shipping items, and arranging for the Postal Service to hold their mail. We have promoted these services in various media, primarily through print advertisements and television commercials.

Click-N-Ship is the Postal Service's quick, easy, convenient online shipping service available on *www.usps.com* to allow users to create and pay for shipping labels for Express Mail®, Priority Mail®, Global Express Mail™ and Global Express Guaranteed® with postage using their credit card, personal computer, and printer - or without postage for no fee. Our Automated Postal Centers (APCs) - self service-kiosks in postal retail lobbies - provide further customer convenience.

For many years, the Postal Service had provided alternate locations, called contract Post Offices, to make postal services more accessible, at less cost, in areas where it is not feasible to establish a Postal Service-operated facility.

Nevertheless, we recognize that many of our customers do not have Internet access, or just prefer to go to a Post Office. Moreover, some special services cannot be obtained through the Internet. We do not envision the elimination of Post Offices, which not only provide retail access throughout the nation, but also remain integral and necessary presences in many communities.

The Postal Service has been very successful in improving service under Transformation, even as it has reduced operational costs. Postal customers now have more consistent and reliable mail service, easier access to products and information, and many more options for using the mail to maintain business and personal relationships.

3. You also mention in your testimony that, as technology improves and your needs change, the Postal Service will be looking to consolidate existing processing facilities. I'm interested in this issue because, in Delaware, we have only one postal processing facility in the entire state. It's located about a half hour from the new Philadelphia plant I mentioned earlier. I don't think the Postal Service can consolidate our plant with the Philadelphia plant, mostly because of the massive amount of mail that comes into Delaware every day because of our banking and credit card processing industry. I know that some banks drive trucks to our plant throughout the day every day of the week to pick up their customers' payments.

   Closing our plant, I believe, would not only impact our postal employees but would be a big hit on one of the pillars of our state's economy. It would also lead to the loss of the Delaware postmark. I don't need you to comment on the future of our Delaware plant, Mr. Samra, but I would like to ask you if the Postal Service – because of its service mandates – takes factors other then dollars and cents and perceived efficiency gains into account when making decisions about whether to close or consolidate a facility.

   Over its more than 30 year history, the Postal Service has used a nationwide program called Area Mail Processing (AMP) to improve the efficiency of our operations. The AMP process considers many factors before making any operational or personnel changes.

   Mail originating at selected Post Offices within a geographic area is collected and transported to a central facility for processing, using sophisticated automated and mechanical equipment such as the Advanced Facer Canceler System (AFCS), Bar Code Sorters (BCS), Optical Character Readers (OCR), and Multi-position Flats Sorting Machines (MPFSM). The cost and space requirements for this equipment make it impractical for us to install it in each of the 38,000 Post Offices across the country.

   Centralizing Area Mail Processing operations has contributed substantially to controlling our costs. Because mail volume has increased significantly each year for the past several years, we

would have had to increase our work force considerably to meet our service obligation to our customers if we hadn't centralized our operations. Increased work forces translate directly into increased costs, and you would see substantially higher postage rates without Area Mail Processing.

Incidentally, because we know how important community identification is to our customers, our Post Offices have a collection box or a lobby mail drop specifically provided for a local postmark.

Before an AMP can be implemented, a study is conducted to analyze the feasibility of relocating processing and distribution operations, as well as necessary support functions, from one location to another. The study examines the impacts on employees, the community, and customers, and considers the AMP's effect on service, costs, productivity, and future strategic initiatives.

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