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# FEDERAL REAL PROPERTY: REAL WASTE IN NEED OF REAL REFORM

## HEARING

BEFORE THE

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

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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# FEDERAL REAL PROPERTY: REAL WASTE IN NEED OF REAL REFORM

**THURSDAY, MAY 24, 2007**

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper and Coburn.

## OPENING STATEMENT OF CHAIRMAN CARPER

Chairman CARPER. The hearing will come to order. Welcome, Dr. Coburn. To our first panel, to Clay Johnson, to Mark Goldstein, thank you for joining us today.

I just got some good news. The good news is that it looks like our first vote may not be until a little bit after noon, so we may be able to finish this hearing without interruption, which would be very nice.

We appreciate our witnesses taking the time to participate in the hearing. I think this is the third in a series of hearings on property management and what needs to be done and what is being done and what further action is required by the Administration and by us in the Legislative Bbranch.

This hearing will examine the findings and conclusions in GAO's most recent update of the high-risk report on Federal property management. Federal property management has been on GAO's high-risk list, I believe, since 2003, and as many of those watching and listening to this hearing will know the high-risk list details the most serious management issues that the Federal Government faces. It is not a good list to be on, but it is an important list to keep, and it is an important list for us to hold oversight over in many instances.

But just casual reading of the testimony we have before us today should tell most of us why the way in which agencies are handling their property is problematic and why the Financial Management Subcommittee that we serve on will continue to exercise oversight in this area.

Many Federal agencies have a presence, sometimes a major presence, not just here in Washington but in communities large and small across our country. That is not the problem. The problem is that too many of the properties that agencies make use of to serve the American people appear to be managed in ways that are likely wasting billions of dollars that taxpayers are paying each year.

The Administration, as they have in several other key management areas, has begun to address this problem, and some initial progress is being made toward improving Federal property management, and we will hear about that today, as well as a to-do list of what lies ahead. The President has responded to GAO's high-risk designation for property management by setting up for the first time a team of qualified senior leaders at key agencies whose sole job is to better manage agencies' property assets and to align their physical infrastructure with their agencies' missions. The President also set up a Federal Real Property Council, which is working to develop a reliable inventory of all Federal property and to set property management standards and to put systems in place for measuring agency performance.

Agencies are now graded on their adherence to sound property management principles through the President's Management Agenda, and we applaud that. As GAO has pointed out, however, there are still a number of very costly challenges that remain. Chief among the management deficiencies that we will hear discussed today is the fact that many agencies hold onto, year in and year out, thousands of pieces of property that are unneeded, underutilized, or, as Senator Coburn and I found out during a field hearing in Chicago, just completely vacant, and I think Mr. Goldstein was there with us at that time.

When an agency maintains possession of a property it does not need to carry out its mission, taxpayers must shell out large sums to pay for unnecessary security, to pay for maintenance, and to pay utility costs. It is apparently a major problem at several agencies, among them NASA and the Departments of Energy and Homeland Security. At those agencies, GAO has reported that more than 10 percent of agency assets are sitting idle and could be taken off the books.

Dr. Coburn and I hope to address this problem later this year with legislation we are currently working on, legislation that the President has recommended in his budget, that would streamline the property disposal process and give agencies the financial incentive to get rid of what they no longer need. Agencies such as the VA that have the ability to retain some of the proceeds when they dispose of properties they own carry very few unneeded assets, and we will hear about that later. We should take what works at those agencies, like the VA, and use it to help make other more sensible management decisions.

Another expensive property management problem that has been highlighted by GAO is the overreliance that some agencies place on leases to meet their space needs, even when purchases or new construction may be the most cost-effective way to meet these needs over the long run. This is another issue that Senator Coburn and I plan to spend some time working on. GAO, at this Subcommittee's request, is currently examining the cost differences between leases and other available options so that we can get a better sense of how much these lease agreements that agencies are entering into with increasing regularity are costing us. The costs, I suspect, are likely to be quite significant.

GAO has testified, for example, that the true costs of the lease the Patent and Trademark Office entered into for their new headquarters building in Alexandria, Virginia, several years ago will cost taxpayers $38 million more than a lease-purchase agreement would have cost. And it will cost us $48 million more than it would have cost us to construct a new building from scratch. And that is just unacceptable, and I fear that may be only the tip of the iceberg.

Our witness from GSA will testify today that, by the end of this year, his agency will reach the point for the first time where the majority of GSA's portfolio will consist of leased buildings.

Now, do not get me wrong. Leases make sense in some cases, but they do not make sense in others, and what we have got to do is make certain that agencies are doing their due diligence at the outset in making sure to the best of their abilities that they are going about meeting their space needs in the most cost-effective manner. We will also need, in all likelihood, to revisit the arcane budget rules that encourage agencies to go with leases when it does not make sense in the long run for them to do so.

These two problems are just the most costly of those highlighted by GAO and others. Maintenance backlogs are another. When an agency, either due to incompetent management or lack of resources, ignores a routine maintenance problem until it becomes a catastrophic one, taxpayers are at risk of spending significant amounts of money to repair or restore something which could have been addressed early on for significantly less money. According to GAO, just seven agencies they contacted reported more than $77 billion in maintenance backlogs, and the Department of Defense alone reported $57 billion in maintenance backlogs.

And, finally, there is the fact that at least some of the data agencies have on their property inventory is just flat out unreliable. For fiscal year 2006, as it has been for, I guess, the last 9 years, GAO reported that the Federal Government could not satisfactorily determine that information on Federal property was properly reported in its annual financial statement. Without reliable information in this area, agencies do not fully know the assets they own and do not know the location and condition of that property. They also cannot effectively manage their assets to achieve their mission in the most efficient way possible.

Well, there is a road map out there for us to follow. That is the good news. We have made a start, and that is good news as well. We look forward to working with our witnesses today, the agencies that they represent and others that are not at the table, to working with my colleague Senator Coburn and others on this Subcommittee to provide the oversight and give agencies the tools and maybe sometimes the push that they need to give taxpayers the kind of property management system that they expect and they deserve.

Dr. Coburn.

## OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Well, thank you, Senator Carper, and welcome to our witnesses. This is a sleepy, little, non-invigorating area of the Federal Government that is costing the American taxpayers billions every year because we are not doing the appropriate thing.

A chart was just put up that shows the Department of Energy's unneeded space—20 million square feet.[1] To get a handle on what that means, that is 19 times the size of this building, this entire office building, or 3 times the size of the largest office building in the world, the Pentagon. And that is just in the Department of Energy, space that we do not need, that we have not sold, that we have not turned over, that we are continuing to spend money on.

The Administration is to be congratulated as it works towards getting a handle on the real property. I know Clay Johnson is involved in that as well. But it is difficult for us to have any credibility, and this really is not a problem with you all as much as it is with Congress. We have set so many road blocks up so that you cannot get rid of buildings. The difficulty in terms of meeting the requirements to ever put a building up for sale is almost impossible. The requirements associated with that in terms of what happens and the requirements that it goes through; it can be used for an airport, prison, education, public health, homelessness, the whole works. These are the things that, in fact, are mandated and must be used for before it can be sold. Some of those things are realistic, and some are not.

What is probably more important is to really identify the problem, which is part of what this hearing is. We need to try to effect a legislative solution so that we can handle real property in a way that makes sense and that does not cause us to continue to spend tremendous amounts of money maintaining buildings that we do not need.

Finally, Senator Carper mentioned leases.[2] That is our problem, too. Because of the way the budget rules are set up, we actually force agencies because we expense a lease-purchase agreement all in the year in which it is made. That is crazy. Nobody else does that in the world. That is not even a generally accepted accounting standard. So the fact is that we need to be changing that, and we need to give the agencies the ability to do lease-purchase and then accurately reflect the cost of that in the budget year on an annual basis over the life of that lease-purchase.

So I am thankful that we are going to have this hearing. My hope is that as we raise awareness, Senator Carper on his side of the aisle and I on my side of the aisle can build a consensus, can alleviate the fears that we might leave somebody out who might have some need in this country and do the common-sense thing of handling real property in a way that gives taxpayers value, and also making sure—I am not sure I agree with Senator Carper that there is ever a time that the Federal Government should be leasing space. If we fix it to where it is easily turned, then there is no reason that we should not purchase it and then turn it rather than

[1] The chart entitled "Excess/Underutilized Property At the Department of Energy" appears in the Appendix on page 105.

[2] The chart entitled "Construction vs. Operating Leases" appears in the Appendix on page 106.

lease it. Leasing is basically the least valuable way to hold a property in terms of return for the taxpayers.

But I thank you again, Senator Carper, for holding this hearing. My hope is that this year we can start down the road and probably have something the President can sign that will change this archaic system into something that is smart, flexible, meets the needs of the agencies, and also is good financial management.

Thank you.

Chairman CARPER. Thank you, Dr. Coburn.

We have two panels before us today, and our lead-off witness is Clay Johnson, and we welcome you today. Your full statement and that of your counterpart here, Mark Goldstein, are going to be made part of the record, so I am not going to go into any elaborate introductions. I think Mr. Johnson comes by about every other month, and so we are always happy to see him and both of our witnesses.

I am going to ask you to use maybe roughly 5 minutes. If you go a little bit over that, that is OK, but go ahead and get started. If you get too far into it, if it gets past lunch, I will rein you in and we will go to questions.

Senator COBURN. Can I interrupt for just a second? I have a Judiciary hearing that I may have to leave for, so it will not be anything you said. It will be because I am getting a page that I need to be there.

Chairman CARPER. Fair enough.

Alright. Mr. Johnson, why don't you lead us off? Thank you.

## TESTIMONY OF CLAY JOHNSON III,[1] DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. JOHNSON. Thank you, sir. Senators, thank you very much. I just have a few very general comments before getting to your questions.

One, we really applaud your interest in this subject. You both are very well known for asking the question at every one of your hearings: What can we do to help? We have some answers to that, and I think your support, to work with us, to figure out how to structure this pilot program, to figure out how to dispose of these properties more readily, more effectively, and in a more business-like fashion, I am confident working together we can figure out how to do that and do that this year and get on about it.

Chairman CARPER. Sometimes we ask that question—What can we do to help?—and we do not get much back. But in this case——

Mr. JOHNSON. Well, we have some proposals.

Chairman CARPER [continuing]. It looks like there is plenty we can do.

Mr. JOHNSON. And I know how genuine and deep your interest is in this subject, and so we welcome that and applaud that.

I was reading all the testimony from the other panelists the last couple days, and I was thinking that 3 or 4 years ago, you could not even have had this panel discussion. We would not have been

[1] The prepared statement of Mr. Johnson with an attachment appears in the Appendix on page 39.

able to answer any of the questions that you want to ask today. We just did not have the information.

What we have today that we did not have until a couple years ago, starting a couple years ago, is that there is leadership in every agency, there is information, a whole lot of information, about real property, and we have asset management tools that we have never had before. And so we have the ability now to tackle these issues that we have never had before. The 100 largest, most unnecessary real property assets, that would have been a laughable question 4 or 5 years ago. We can answer that question now, and we have been challenged to answer that in this report that is due to Congress on June 15, identifying all the unnecessary property, and particularly the 100 largest and most unnecessary.

But, anyway, we are prepared, and as GAO has pointed out in the report, we have made a great start, but now it is time to start using all these tools to start delivering and start disposing of properties and start managing things more effectively. And agencies are really excited about doing this. They are real proud of what they have accomplished so far, and we are real proud of them. And we look forward to working with you in the months and years ahead to actually deliver on the promise of all these new-found capabilities. Thank you.

Chairman CARPER. Fair enough. Thank you for that statement, and your full statement will be made a part of the record.

Mr. Goldstein, why don't you share with us your thoughts?

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

Mr. GOLDSTEIN. Sure. Good morning, Mr. Chairman.

Chairman CARPER. Good morning. By the way, thanks very much for the most recent report, which we have had a chance to read and to try to digest. A lot of good substance here. Thank you.

Mr. GOLDSTEIN. Thank you very much. Our team did a very great job, and we appreciate the Subcommittee's——

Chairman CARPER. Are any of them here today?

Mr. GOLDSTEIN. The team is, in fact, right behind me.

Chairman CARPER. Will the team members raise their hands? Good. Thanks very much. Front-row seat.

Mr. GOLDSTEIN. Exactly. That is not always a good thing, but we will do our best.

Thank you for the opportunity to testify today on the progress and the challenges that the Federal Government has made in managing its real property. At the start of each Congress since 1999, GAO has issued its "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 updates on this area in January 2005 and January 2007. My testimony is based largely on a recent report on Federal real property that you just mentioned, and as well as other GAO reports on real property issues that we have talked about over the years. My testimony focuses on the progress made by the

[1] The prepared statement of Mr. Goldstein appears in the Appendix on page 43.

Administration and the major real property-holding agencies to strategically manage real property and address longstanding issues, and what problems and obstacles, if any, remain today to be addressed still.

The major points of my testimony are as follows:

First, the Administration and major real property-holding agencies have made progress toward strategically managing Federal real property and addressing some longstanding problems. In response to the President's Management Agenda and related Executive order, relevant agencies have, among other things, designated senior real property officers, established asset management plans, standardized real property data reporting, and adopted various performance measures to track progress. The Administration has also established a Federal Real Property Council to help support real property improvements. Additional initiatives seek to provide agencies with other management tools to more effectively manage real property, such as broader authority for enhanced-use leases.

Second, although progress toward strategically managing real property and addressing some longstanding problems has been made, many problems have not been fixed, and several underlying obstacles that hinder progress remain unresolved. For example, Energy, DHS, and NASA reported that over 10 percent of their facilities are excess or underutilized. In addition, Energy, NASA, GSA, Interior, State, and VA reported repair and maintenance backlogs that total over $16 billion. DOD reported a backlog of more than $57 billion, which includes the cost of restoring and modernizing obsolete buildings. Furthermore, Energy, Interior, GSA, State, and VA reported an increased reliance on operating leases—an approach which we have reported is often more costly for long-term space needs. While agencies had made progress in collecting and reporting standardized real property data, data reliability is still a challenge in some agencies, and agencies lack a standard framework for data validation. Finally, all the major real property-holding agencies reported using risk-based approaches to prioritize security needs, as we have suggested, but cited a lack of resources for security enhancements as an ongoing problem.

In our past high-risk reports, we called for a transformation strategy to address the longstanding problems in this area. The Administration's approach is generally consistent with what we have envisioned, but certain areas warrant further attention. More specifically, underlying obstacles such as competing stakeholder interests, legal and budgetary limitations, and a need for improved capital planning persist. For example, some agencies cited local interest as barriers to disposing of excess property. Furthermore, agencies' limited ability to pursue ownership often leads them to lease property that may be more cost effective over time for them to own. And, finally, long-term capital planning efforts to improve the efficiency of government operations continues to be a challenge, and these efforts are not clearly linked with the real property initiative.

The Federal Government has generally not planned or budgeted for capital assets such as real property over the long term. In our April 2007 report on real property, we made recommendations in three areas: One, to ensure the validity of agency data; two, to focus reform efforts to better address the leasing problems and security challenges; and, three, addressing obstacles that included competing stakeholder interests and the need for improved capital planning.

Mr. Chairman, this concludes my opening statement. I would be happy to answer any questions that the Subcommittee has.

Chairman CARPER. Good. Thanks very, very much.

Let me just start off, if I can, and we will maybe do 7-minute segments here, but not that I will stick to that too closely. Let me just start off by asking you, Mr. Goldstein, when you looked at the work that the Administration has done in response, I guess, to the news in 2002 and 2003 that real property management was on the high-risk list, when you look at what has been done to date, what do you especially admire? And where do you find that there is still more that they can do without our help? And I am going to get into what we can do as well. What are the things especially meritorious and what are some areas where you think they are still falling a bit short?

Mr. GOLDSTEIN. Sure. I think that——

Mr. JOHNSON. Should I step out of the room? [Laughter.]

Chairman CARPER. You have got to stay for this part.

Mr. JOHNSON. OK.

Mr. GOLDSTEIN. No. Actually, I was about to compliment Mr. Johnson. I think the Administration has done a very good job and a lot of progress has been made. His comment that we could not hold this kind of a hearing 4 or 5 years ago I think is absolutely true. When GAO put real property on its high-risk list in 2003, we did so for five reasons: Issues with data reliability, excess property, backlogs, leasing, and security. And I think you would find today that there has been progress made in all five of those areas.

At the same time, as I have mentioned—and I suspect Mr. Johnson would agree—we have still got a long way to go. These problems are not fixed, and some of the underlying obstacles that I have talked about—some of the legal and budgetary disincentives, the competing stakeholder interests, and the like—could hamper progress in the future if we do not continue to address these issues. But there has been considerable progress made.

Chairman CARPER. When you look at the areas where the Administration without our help could do more, or agencies could do more, what are some that come to mind?

Mr. GOLDSTEIN. Clearly, in the area of data validation, I do not think they need the help of the Congress.

Chairman CARPER. Talk a little bit more about that point, please.

Mr. GOLDSTEIN. Sure. Within the Federal Real Property Council, the database that has been established by the Administration and the agencies, collecting Federal real property data, over the years that data has been quite sketchy. The effort underway now is to try to improve that by standardizing the kind of data elements that are used and the definitions that are used to collect data. But there are still some holes in the collecting of the data, and there are still some discrepancies and differences of how agencies are actually defining that information and, therefore, reporting it. So that it is not uniform at this point in time, and there has not been any validation, certainly that I am aware of, at the Administration level to determine that what is being reported is completely accurate and complete. And so agencies need to get, I think, more involved in having accountability and control mechanisms in place that will assure both the Administration as well as Congress that the information that is being reported in the database is accurate and complete and so that the government does know what it owns, where it is, and what its disposition status is.

Chairman CARPER. Mr. Johnson, do you want to respond to that at all?

Mr. JOHNSON. Just a comment on the data validity. All the agencies have been charged to come back to us, I think by the end of the third quarter, with their plan—or fourth quarter of this year—with their plan, what they are going to do to validate this data. I do not know whether that is a sampling or they are getting the Inspectors General involved or announce that they need to confirm the validity of the information.

A couple of examples of indications that the data may not all be 100 percent accurate is a building would be reported on their inventory as being in good condition and go in as such on the inventory, and 2 months later it is condemned for asbestos problems or something. Well, that suggests that the original designation was not accurate. Or an agency, unnamed, would submit information and maybe there are 50,000 more assets than last year. Well, we did not acquire 50,000, so that number is wrong—this year or last year?

So it is those kinds of things that says, Oh, maybe this is not all 100 percent accurate, and maybe agencies need to be doing something every year to look at the accuracy of the condition information or the number information or the replacement value information to ensure that we have the most valid data that we can possibly get.

Chairman CARPER. OK, good.

Mr. Goldstein, anything else that comes to mind in terms of a to-do list for the Administration without our help?

Mr. GOLDSTEIN. Well, I think they will need your help, obviously, on excess property. On backlogs, I think the agencies can do a fair amount themselves by getting a better handle on what their backlog requirements are, which some of them are starting to do, but trying to understand at a more detailed level what the funding requirements to deal with repair and maintenance backlogs are going to be and perhaps approaching it in a smarter way. They need to make better cases to agency management that these funds are needed up front, not later, because obviously, as you mentioned, the longer you wait to do these kinds of repairs, the worst shape you are going to be. Not one of your agencies here today, but to me one of the most glaring examples of this problem sits on the National Mall. It is the Arts and Industries Building of the Smithsonian, which for years has had an increasingly growing problem, and now the entire building, of course, is closed because the roof could cave in at any point. It is now going to cost hundreds of millions of dollars to repair an American treasure sitting in the middle of the National Mall. It could have been repaired at a much earlier date for a lot less money.

Chairman CARPER. Yes. Mr. Johnson, would you make a comment or two in response to what Mr. Goldstein just said?

Mr. GOLDSTEIN. Well, is that all the suggestions that you are talking about Congress could do or not, or just——

Mr. GOLDSTEIN. These are ones that agencies and the Administration——

Chairman CARPER. That agencies might be able to do on their own.

Mr. GOLDSTEIN. Not all, but some of them.

Mr. JOHNSON. The costs of disposing of properties that are a real issue, particularly in an area of tight budgets, which is what we are in now. And so changing this pilot program proposal where agencies are allowed to keep for a period of time 20 percent——

Chairman CARPER. No. I think the point he was talking about was getting—and the Smithsonian is just one example where agencies are not asking—are not getting the money. I do not know if they are asking in their budget request that they are sending to the folks who run the agencies or to OMB, but apparently there is a concern are they getting the money that they need to maintain the——

Mr. JOHNSON. So it is the deferred maintenance question.

Chairman CARPER. Yes.

Mr. JOHNSON. OK. In tight budgets, you look at the things you absolutely have to have, and deferred maintenance is usually one of the first things that you could go without for one more year, and then it is the same answer the next year, and pretty soon you have a whole bunch of accumulated years of deferred maintenance that is not funded.

The one thing that we are doing in this initiative is causing agencies to prioritize, understand here is all your deferred maintenance needs, here is how much money you might be able to get, what are your highest priorities, and make sure that they are not—that their highest priority deferred maintenance issues are being addressed. That is the one thing that we can do now with existing resources, and being smart about what is deferred maintenance and if they can get rid of properties versus continue to maintain them or upgrade them or really do not need them, that kind of thing.

The issue of available resources, spending more money on it, is a budget issue and a deficit issue, and all of a sudden politics gets into it, and how big do we want the deficit to be and what do we want the top line to be and so forth. So it is a much bigger issue.

Chairman CARPER. Alright. As I prepare to turn this over to Dr. Coburn for questioning, one thought that comes to mind—I have not asked yet what could we do, and we are getting there. Dr. Coburn will probably get into that, and I will as well. But to the extent that we allow some agencies—VA comes to mind—to retain a portion of the value of the assets that they dispose of, the excess property that they dispose of, to the extent that they can use that for deferred maintenance, that would seem to make a whole lot of sense. It would provide a good incentive for agencies to get rid of some excess property knowing that they could keep the portion of that and use it for something that is hard to get through—dollars that are hard to get through the budgetary process. We can explore that later. I am sure we will.

Alright. Dr. Coburn.

Senator COBURN. Do we know how much excess Federal property we have?

Mr. JOHNSON. We are supposed to produce a report for Congress June 15. The preliminary information is that it is approximately 21,000 distinct assets with a replacement value of about $17 billion.

Senator COBURN. Seventeen billion dollars for 21,000? There was an estimate put out by Vista that has tons of management contracts with the Federal Government. It estimated that approximately one-third of all Federal property or 1.2 billion square feet is considered excess. Do you have any comments on that?

Mr. JOHNSON. It sounds high to me.

Senator COBURN. It sounds high? OK.

Do we have any idea what the cost is to us as a Nation for maintaining that excess property?

Mr. JOHNSON. No, we do not. But we have the information to get in the ballpark of what that is. We just do not have that now. But let us pick a date, and we will get back to you by that date with that estimate.

Senator COBURN. OK. I think the testimony was from the Department of Defense in Chicago—and, Senator Coburn, you might correct me on this, but I think they spend about $3 billion a year maintaining properties they do not want. Just think about what that would do for us, and that is the Department of Defense, and I know that is one of the larger ones.

Let us talk about this pilot project and what the President has requested. A couple of things. If an agency did not have to go through—put that list of steps you have to go up through—the list of steps that are required, and let me more accurately describe this. This is from 2002 to 2006. In 2006 alone, there were over 1,000 properties disposed of, and if you just extrapolate that back over 5 years, that means you have 5,000 properties. So you have less than 4 percent of the properties that actually went. But every one of those properties had to go through every one of those steps to do it. Do you believe that agencies would be more effective if we could limit the number of steps or maybe even eliminate the steps and say if we have a need over here, we will buy a property and we will not connect it to the disposal of present property?

Mr. JOHNSON. Yes. These rules were established for, I am sure, good reasons at the time. A lot of these rules, I think a number of them, a majority of them, were established in 1949. I am thinking maybe the needs have changed. The world has certainly changed. They need to be rethought. And the McKinney Act, the homeless provision, also is a very sensitive issue. A lot of advocates of making all the properties possible to be available for the homeless, the fact of the matter is in the last 30 years, less than 1 percent of all the properties we have disposed of have ended up going for the use by the homeless.

So we have to go through a very protracted—we have to go over some hurdles to end up with less than 1 percent of the properties end up being conveyed to the homeless.

Senator COBURN. Has anybody gone back to look at the properties that were available to the homeless to see if they are still being used for the homeless?

Mr. JOHNSON. I do not know.

Mr. GOLDSTEIN. Dr. Coburn, may I?

Senator COBURN. Yes, please.

Mr. GOLDSTEIN. Maybe I can answer your question a little bit. GAO did a report several years ago on public benefit conveyances, and we found out a number of things that I think are pertinent. One is—and the Chairman asked this question a little while ago—about what more could agencies do on their own. One of the things we found in that report was that many of the properties that were up to be conveyed through the public conveyance process had not been communicated in any way to the public that was successful. There were many properties out there, and people tended to find out about them in an ad hoc basis. In other words, GSA could better—we recommended could better use its website and other public communications vehicles to try and get those properties out there so that the public could deal with them and know that they were available.

In terms of taking a look at whether anyone has gone back, when we did our report, I think 2 or 3 years ago now, we went and looked at some 40 properties that had been conveyed to ensure that they were still being used for the purposes that they were supposed to be used and the like. And we found in almost all cases that they were still being used properly, whether they were for the homeless or for other reasons.

Senator COBURN. OK.

Mr. JOHNSON. On the subject of those conveyance rules, homeless provisions, nobody is proposing that we completely eliminate those and we let the agencies do as they please, although the thought has entered some of our minds. But I think we need to use the pilot project and sit down with you and other interested parties and figure out how we can test doing this differently, determining what resources are potentially of interest to the homeless, have an expanded set of criteria beyond the ones now that agencies—that we look at in the first review of properties, and just be able to do it faster. This whole process can take up to a year for just a review of the McKinney process.

Senator COBURN. Which is one step.

Mr. JOHNSON. Which is one of the steps, right. And it was concurrent with other things, so it is not additive. But, still, it is a year. And that and the cost of disposition of properties is a major obstacle to agencies to dispose of properties. Most of the properties that are disposed of are destroyed. They are not sold. The vast majority are destroyed.

Senator COBURN. You mean razed?

Mr. JOHNSON. Razed, right. And that costs money, and that is usually money that agencies do not have. And so you add a lot of time to it and you add a lot of cost to it, and those are two pretty big hurdles for paying attention to other things on your to-do list.

Senator COBURN. OK. Let me get you to repeat. I think your testimony was 21,000 properties, $17 billion.

Mr. JOHNSON. That is our estimate now, but we will come forward——

Senator COBURN. That cannot be right because that makes the average property worth $1,235. Would you check that number?

Mr. JOHNSON. OK.

Senator COBURN. If you take $17 billion divided by 21,000, there is something wrong with that number. If you would check that for me.

Do earmarks play a role at all in how properties are either acquired or disposed of?

Mr. JOHNSON. I do not know, but I remember when Rob Portman came into the Director's job at OMB, we were talking about what goes on in the management world, and I was telling him about real property, and he was smiling sheepishly. I said, "What are you smiling for?" And he said, "I used to love to get Federal properties and make them available for the city of Cincinnati." I said, "Well, you are on the other side of that effort now."

So I do not know to what extent earmark mechanisms play a role in that or not, but, of course, every elected official representing their State or district would love to get Federal properties made available for their local municipalities.

Senator COBURN. Let me go back again. Real numbers, deficit added to the debt last year, excess of $300 billion. All the States are running a surplus. When we are running a deficit, why would we be giving excess property to the States or the municipalities?

Mr. JOHNSON. You would have to ask them that, but I think the answer to that is because they can.

Senator COBURN. But does anybody agree that is smart? I mean, when we are running a deficit and they are running surpluses and all what we are, in fact, doing is enhancing our deficit?

If we get this pilot program going, what do you hope to achieve? At the end of 5 years, what is the goal?

Mr. JOHNSON. The goal is—not necessarily in any particular order—to demonstrate that when agencies are allowed to keep a portion of the proceeds—and we are recommending they keep 20 percent of the net, so there is some cost of disposition offset there—that it shows how much of a—there is a huge increase in the activity so that it is scored as a plus for the Federal Government. Right now, if you went in and said let the agencies keep 20 percent, it is scored as a cost to the Federal Government because less goes to the Treasury than would otherwise go to the Treasury. So we want to demonstrate the impact that this has on the level of disposition activity.

We also want to, in a controlled environment with a 5-year time frame set on it, engage you all and think through these public conveyance provisions, McKinney Act provisions and so forth, and see if we cannot agree on a more sensible, current view of the world approach to this so we can still address all the issues that need to be addressed, but in a more expeditious fashion.

Those are the two primary benefits of conducting this pilot.

Chairman CARPER. Just talk to us, if you will, with some specificity, Mr. Johnson, about what we can do to get this moving.

Mr. JOHNSON. This bill on the pilot almost made it to voting status last year, and the thing that held it up, as I understand it, was concerns about McKinney, and what we were proposing ostensibly was that all be put on the sideline for 5 years and not be a factor.

What we would like to do is, knowing now that there is real, honest to goodness seriousness here about moving forward on this, let us sit down and agree on some language—we do not have anything to propose to you today, but develop some language that we think addresses these public conveyance issues and McKinney issues that we think will be satisfactory on a trial basis for this pilot, and then figure out how we can help you build a consensus around this on both sides of the aisle to get it done.

Chairman CARPER. Mr. Goldstein, you are sitting over there sort of outside of the legislative process. Any advice as an objective observer on how you think we ought to get this thing moving?

Mr. GOLDSTEIN. I think, Mr. Chairman, that Mr. Johnson is right in that there are definitely some—and as you point out, too, there is clearly flexibility and incentives that can be put into this process, and they do seem to need to come out of the legislative framework because the authorities are not present for most agencies today. And so it will take input from the Congress to make that work. But, clearly, greater incentive and greater flexibility would, I think, help agencies deal with some of the problems in an environmental remediation in having money if demolition is the appropriate response and in dealing with other kinds of factors that they would have to do to prepare properties for sale or for surplusing in some other fashion. So I think it would be beneficial. We have long been in favor of that.

Chairman CARPER. Just kind of thinking out loud, if you are a Federal agency and you do not have money in your budget to pay for demolition, a pretty good disincentive to demolish and get rid of a property, if you know that even if you had something—land, if you will—to sell, at the end of the day you knew you were not going to get any of that money back to help pay for the demolition costs, that is a pretty good incentive not to do anything.

On the other hand, if it is a property that needs to be heated, cooled, whatever, maintained, that is a drain on the Treasury. There has got to be a good, common-sense way here to change the way we operate. What are some agencies that have already been a pilot, if you will—I always like to talk about the States being laboratories of democracy, 50 of them, and we learn from what they do well or not so well. But give us some examples of some Federal agencies that already has served as a pilot, and we have had a chance to watch what they do and to learn from them. The idea of waiting a number of years for us to be able to make real progress here is not appetizing.

Mr. JOHNSON. Well, there are agencies, a number of agencies have the flexibilities—and correct me if I am wrong, but DOD has retention flexibilities, GSA, VA, USDA, State Department. State Department international facilities, I think. So they are allowed to keep, I think, all of the proceeds for use on real property, maintenance, investment, whatever. And I do not know if they could demonstrate that before they had those flexibilities, here was the situation, and once they got the flexibilities, here is what happened to the activity. But they have those flexibilities now and are glad they have them. Those are our largest real property agencies, so it is a good thing. So we are talking about similar flexibility, but they retain only 20 percent for the other agencies.

Chairman CARPER. Given the fact that we have so much experience, obviously years of experience with some of these other agencies that have a lot of property, how long is this pilot program going to run?

Mr. JOHNSON. We are proposing 5 years—which is a long time.

Chairman CARPER. Yes. Do we really need 5 years?

Mr. JOHNSON. I do not think so. The question that is going to be raised, as I understand it, by elected officials is these public conveyance issues and homeless issues, because some of those are very sensitive issues. But I do not think we are saying let us take those out of the consideration; let us do it in a much more businesslike—that is a bad term—a much more effective, efficient, expeditious fashion.

Chairman CARPER. OK. Dr. Coburn, I know you have a couple more questions. You go ahead, and I might ask one more.

Senator COBURN. Our numbers were wrong. Yours were right on the previous comment.

Mr. JOHNSON. Well, we will be glad to say that we were wrong, if that helps.

Senator COBURN. No. [Laughter.]

Mr. JOHNSON. Always trying to help out, sir.

Senator COBURN. It is not often people on this side of the table are saying we are wrong, so you ought to take that and run with it.

Mr. Goldstein, as far as this proposal, this pilot, is it the GAO's position that this is an effective method of looking at another way of disposing that might be more expeditious? Do they have a position on what we are trying to do or what we are suggesting?

Mr. GOLDSTEIN. Yes, Senator. GAO has been in favor of providing increased flexibility and giving agencies more of an incentive, and part of the way to do that is to have them retain some of the proceeds that they can then put to offsetting costs in future excess property activities and the like. So we have been in favor of this for a number of years. We typically believe that demonstrations of this kind can certainly help the government better understand what works and what does not work and to be able to make changes certainly at the margins and then transfer those positive benefits, if there are some, to other activities, to other agencies of the government. So we are in favor of it. We were in favor of that legislation when it was before the House last year.

Senator COBURN. I am just sitting here thinking about the average American homeowner, and if they had a lot next door and a building on it, and the freedom that they have to say, "The cost of maintaining this lot and paying the taxes on it for me, I think I will get rid of this lot. I am tired of mowing the grass. I am tired of the city code saying I have to keep it up. It is not economically feasible for me to use anymore. I think I will sell it." And yet that common-sense approach based on economics and the situation they find themselves in is not available to us in the Federal Government. You just have to ask yourself the question. Is it not because we want to do good things for other things?

I would venture to say that we could develop a homeless program for a whole lot less than the costs of doing the homeless survey for every piece of Federal property that we want. We could just take a chunk of that money from properties and say we are going to put this over here for homeless, and we would be far better off than what we are doing, well intended but very costly and not efficient.

Go ahead and comment.

Mr. JOHNSON. My understanding is that when thinking has been thrown out on the table in the past, the representatives of the homeless, whoever that is, have said they do not want the money. Why, I do not know. But I think that what I suggest we do is we pick a date here, not too far down the road—this summer, perhaps before the August recess—and all these hurdles we have to go over, public benefit conveyances and so forth, homeless, whatever, let us try to rethink what—fresh thinking, what they ought to be for a pilot over some period of time, how they would be implemented, who would have to sign off on them and so forth, and try, at least amongst ourselves, to figure out what that would be, get the appropriate people to look at it, GAO, whomever to look at it, and then start working that with the appropriate people that have expressed concerns about we might change this or change the homeless——

Senator COBURN. Well, the other way to go is to have the GAO say go in and look at, under the methods we have today, what are we spending to try to be able to get property available to finally be sold. You know, that is the other thing. And how much money are we spending just on this process that we have set up, and could we spend that money in a way that achieves the goal? I mean, if we are really talking about 4 percent of the properties——

Mr. JOHNSON. Less than 1 percent.

Senator COBURN. Less than 1 percent being conveyed.

Mr. JOHNSON. To the homeless, anyway.

Senator COBURN. No, I am talking about total. All conveyances. We are talking about less than 4 percent of the—so that means 96 percent is not going that way, yet we are going through these steps, these 17 steps, on every piece of property. That has to cost a fortune. So maybe we could look at what are we spending now as we go through all these steps on all the pieces of property and look at that and say wouldn't it be advantageous to try to create something to serve these needs outside of the property and not tie it to it, so we can make good economic decisions about properties.

Mr. Goldstein, would you have any thoughts on that?

Mr. GOLDSTEIN. That is something we could certainly look at, sir. We would be happy to work with the Subcommittee to develop that, if that is the direction they wish to go in, sure.

Mr. JOHNSON. Why don't we get back to you with a date by which we will come back to you and say here is the approach we suggest taking to look at this particular impediment. It is not 20 percent, 30 percent, that is the retention percentage. It is the impediment, and what analyses, what discussions, what ruminations, whatever we want to engage in to come back before we start trying to convince other Senators and Congressmen that this is the way to go.

Senator COBURN. The other thing I am thinking is how many agencies never put a property that truly is excess up because they do not want to have to go through this bureaucratic nightmare, to go through all the steps and spend the money. They are just saying that the cost of maintaining this building is less than the cost of getting it ready to be disposed of. Do you have any idea on that?

Mr. JOHNSON. I do not, but I hear agencies talk about that, because they are going to eat their maintenance costs this year, they are going to each the destruction costs, the razing costs this year, and this year's budget is real. And then on top of that, they have a lot of bureaucratic hurdles they have to go through, so, "Tell me why I am doing this."

Senator COBURN. And don't we have an agency for housing and urban development? Why are we tying up this whole idea of real property management for a function that we already have an agency that sat there and designed to address?

Mr. JOHNSON. Right.

Senator COBURN. I do not have any other questions.

Chairman CARPER. Let me go back, if I can, to this issue of leases versus buy or build. There has been some discussion in recent years, I believe regarding the Patent and Trademark headquarters, I think, in Alexandria. It is apparently costing the Trademark Office, I am told, tens of millions dollars more to lease its facility than it would to buy it or even to build something similar from the ground up. And I suspect there are similar examples out there, especially now that agencies' reliance on leases continues to increase. And I think we said earlier that we expect sometime this year or next that more properties will be leased than actually bought or built.

Is there anything that the Administration is doing to encourage agencies to rely less on leases?

Mr. JOHNSON. The things that we are doing to question the level of leases, the number of leases, there are several things. One, agencies in their plans are asked to look at opportunities to combine leased spaces to see if they can consolidate them in fewer locations and have less separate facilities. The Department of Labor has done a really good job of this. There is more information now about, in a particular neighborhood, all the different Federal entities that have space, so there is more information that an agency—the Agriculture Department could look at and say, "I need some space. What other Federal agencies might have space in this geographical area that I might be able to utilize," instead of lease something new. So there is information available now that was not available before that allows us to potentially avoid leases.

Then when an agency in their budget wants to propose creating a new structure or a new physical asset, they have to propose a purchase or a lease arrangement in that, and OMB then agrees to that or does not agree with that. In some cases, the things that drive leasing—and Dave McCormack can talk more professionally and intelligently about this than I; he is going to be on the next panel—is that sometimes we need space for a very short period of time and it is a very small amount of space. And so leasing is the way to get into it the fastest and also be able to get out of it when we no longer need it.

But the other thing, quite frankly, is money. And maybe a less expensive thing to do, all things considered, is to buy. That is true for you and me and so forth, but sometimes we just cannot afford to pay cash for things, and so we lease it. That is the same thing for the Federal Government.

Chairman CARPER. Alright. One more question, if I could, for Mr. Goldstein. I am sure you know that Federal property management is now part of the President's Management Agenda, and agencies are scored based on their success in meeting property management goals that are set by OMB, and I assume by the Federal Real Property Council. There is some discussion in your testimony on how agencies are scored and which ones received green, yellow, or red scores.

In your view, is it clear that why some agencies receive the scores that they do receive, is it clear to you what an agency has to do to receive a higher score, and what some agencies, like the Departments of Agriculture, Labor, or Defense, for example, have done in the past to see their scores drop?

Mr. GOLDSTEIN. Our April report, Mr. Chairman, on real property examined pretty much at a high level by surveying agencies the kind of progress they were facing. And so we did not specifically look at the scores that the agencies were getting in the scorecard. However, because we wanted to understand generally the process that the Administration was going through and working with the agencies, we did ask OMB about the process and about how agencies were scoring so we could understand it.

Unfortunately, OMB's response to us was that the kind of information was pre-decisional to the Executive Branch, and so consequence we do not have access to that information, so I cannot answer that question for you, unfortunately, at this point in time. It is something, I think, that would be important to know so that we could have a better understanding and be able to assure Congress so that the process itself is working as it should and that agencies do have a very clear understanding of how they can get from red to yellow to green.

There is guidance out there—it is on OMB's website—about how they can do that. It seems to be relatively clear when we read it. Also, we found when we did our survey of the major property-holding agencies and we asked them to describe that process, then most of them seemed, at least in their written responses to us, to have a pretty good understanding. But, nevertheless, I cannot directly answer your question.

Chairman CARPER. Alright. Well, we are probably going to have some more questions we would like to send you to respond to for the record. Before we send you on your way, I do not know, Mr. Goldstein, if you might be able to stick around for the second panel, but if you could, that would be much appreciated.

Mr. GOLDSTEIN. I would be happy to, sir.

Chairman CARPER. Thank you. Senator Coburn and I talked a good deal about the size of the budget deficit and what we can do to rein it in. There is a lot that we can do. We can collect some of the taxes that are owed but that are not being collected. We can reduce improper payments. There are all sorts of things that we can do to right our fiscal ship.

We can also do a better job of managing our properties. We could eliminate all the missteps that we take with respect to managing our properties, and we would still have a budget deficit, but it would be a smaller one. And I think the taxpayers of this country would probably appreciate any progress that we might continue to make.

I applaud the fact that we have gotten started. I applaud GAO for raising the flag, the danger signal, several years ago, 4 or 5 years ago, along with the Adminidstration for responding to that. And we have an opportunity here to build on the steps that have already been taken. And what I want us to do is just to pick up the pace.

My father used to say to me when I was a kid growing up, he would say to my sister and me—we would do some boneheaded stunt, and he would say, "Just use some common sense." He said it a lot. We must not have had much. And by the time we finished up and we went on our way in the world, my sister and I spent a lot of time in our lives, professionally and otherwise, saying, "Well, if we used some common sense, what would we do?"

This is a real good one to apply some common sense on. It is a real good issue. Obviously, there are some things that the Administration can and cannot do on their own, and it is pretty clear as the noses on our face that if you say to an agency, "We are going to put you through the hassle of trying to figure out how to get rid of a property, we are going to make you pay for it, and we are not going to reimburse you for that, then if there is anything left, any money left over from the sale and disposal of the building or the ground, you do not get any of it," we should not be surprised if we got a lot of excess properties and they are costing us money. And whether it is a couple million dollars in property or a couple of billion dollars, that is real money. And we can do better on this, and we want to.

I am going to talk with Senator Coburn. I am sure he is as interested in this issue as I am, and we will find ways to work with one another and with others on this Subcommittee, but especially with the Administration and with GAO. We are sort of in this one together, and we are making some progress, but we can make a whole lot more progress if we figure out collectively what our next steps could be.

Dr. Coburn, do you want to add anything else?

Senator COBURN. No. Nothing.

Chairman CARPER. Alright. Gentlemen, thanks very much, and it was good to see you both. And, Mr. Goldstein, I especially appreciate you sticking around.

Thank you.

With that, I am going to ask our second panel to come forward. Gentlemen, welcome. I had a chance to shake all your hands a little bit earlier, and we are glad that you stuck around through the first panel, and we look forward to your testimony.

I am just going to ask, Mr. Rutherford, if you would like to lead us off, and we will ask you to keep your comments to about 5 minutes. If you run a little over, we will not throw you out, but when you have all finished, we will be asking some questions. Welcome. We are glad you are here. Your full statement will be made a part of the record. If you would like to summarize, feel free.

**TESTIMONY OF BOYD K. RUTHERFORD,[1] ASSISTANT SECRETARY FOR ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE**

Mr. RUTHERFORD. Thank you. Good morning.

Chairman CARPER. Good morning.

Mr. RUTHERFORD. Chairman Carper, thank you for the opportunity to come before you today to discuss real property asset management at the U.S. Department of Agriculture. I would like to begin by providing a brief overview of USDA's real property profile. USDA is a leader in America's food and agricultural systems, helping the farm and food sectors operate in a highly competitive marketplace to respond to changing consumer demand for high-quality, nutritious, and convenient food and agricultural products. USDA also carries out a wide variety of services and activities related to the management, research, and conservation of the Nation's agricultural resources. As a result of such a huge mission, USDA manages an extensive asset portfolio. Land, facilities, and other real property held by USDA are an integral support component to its mission.

As the second largest landholder in the Federal Government, USDA occupies approximately 89 million square feet of owned, commercially leased, and General Services Administration-assigned space. USDA also manages 193 million acres of land, of which 99 percent is National Forest land, and a Roads Program totaling 383,900 miles. USDA operates in 23,400 buildings and 31,000 structures having a replacement value of approximately $46 billion.

With such a large footprint, USDA has made rightsizing the Department's asset portfolio a priority. Executive Order 13327 has provided a framework for addressing the many areas of real property asset management. Since the implementation of the Executive order, USDA has taken the following actions:

In May 2004, USDA established the Corporate Property Automated Information System (CPAIS)—I think that is "Inventory System," excuse me. CPAIS is a system of record for all real property assets controlled by the Department.

USDA developed a comprehensive asset management plan which guides managers' activities to ensure that assets are in the right place, at the right price, and in the right condition to support mission requirements.

USDA established asset management performance measures, consistent with those published by the Federal Real Property Council.

USDA has developed a Capital Programming and Investment Process that will formalize project management for capital improvement projects. And, locally, USDA is currently undertaking a project to consolidate staff from seven different leased locations within the National Capital Region into a single lease, which will result in an 18-percent improvement in space efficiency and potentially $24.3 million in cost avoidance over the term of the lease.

Whereas USDA was not subject to the GAO study, the Department is working to address the longstanding problems mentioned in the study through implementation of the USDA's asset manage-

[1] The prepared statement of Mr. Rutherford appears in the Appendix on page 68.

ment plan. USDA agencies are evaluating program requirements, asset performance, and facility conditions to determine whether an asset fits within the long-term mission of the Department. The recent GAO study highlights the Federal Government-wide problem with holding excess assets. A number of factors must be considered when deciding between disposal through sale or transfer and demolition and the time frames for carrying out the decision.

As was pointed out by the GAO, remediation of hazardous materials must be performed prior to disposal or demolition. Delays in carrying out a decision often occur, as remediation projects are subject to the availability of funds. USDA understands the importance of maintaining its real property portfolio. Unfortunately, as with most Federal agencies and State governments, USDA has a significant backlog of maintenance and repair projects. Using guidance provided by the Executive order and the Office of Management and Budget, the Department is developing a strategy to address the asset backlog.

USDA generally agrees with the GAO's assessment of the challenges to improving Federal real property management. Some challenges can be overcome through enhanced real property authority. The ability to retain all or a portion of the proceeds from the disposal of excess property provides a real incentive for agency heads to thoroughly analyze their facility requirements. In addition, authority to enter into enhanced-use leases provides a means for making meaningful upgrades to facilities while adding to their overall mission.

In conclusion, USDA is committed to ensuring that effective management of real property assets is ingrained in the culture and business processes of the Department. I would like to thank you again for this opportunity to discuss USDA's successes in managing its real property assets, and I am ready to answer any questions you have.

Chairman CARPER. Thank you, Mr. Rutherford.

Mr. Henke, do you pronounce your name "Henke"?

Mr. HENKE. Yes, sir. That is correct.

Chairman CARPER. That is the way I will pronounce it. Thank you. Welcome.

## TESTIMONY OF ROBERT J. HENKE,[1] ASSISTANT SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF VETERANS AFFAIRS

Mr. HENKE. Yes, sir. Mr. Chairman, I am pleased to be here today on behalf of Secretary Nicholson to talk to you and the Subcommittee about the VA, how about how we manage our real property portfolio, and some of the many initiatives we have in place to sustain real reform in Federal real property.

Our priority, of course, and our dominant value is our commitment to meet the needs of America's veterans in providing them with world-class health care, benefits, and memorials. Just to give you some perspective on how busy the VA is lately, in health care this year we will treat 5.7 million unique patients, an increase of 34 percent over 2001. This year, we will have about 65 million out-

[1] The prepared statement of Mr. Henke appears in the Appendix on page 75.

patient visits, an increase of 47 percent since 2001. Our Benefits Administration last year processed its 18 millionth home loan, and we processed almost 800,000 claims for disability benefits.

All this is to put into context our real property program, the main components of which are: One, to have a strategic plan; two, manage what we have most effectively; three, make prudent investments in what we need for tomorrow; four, measure our performance; and, five, dispose of assets we do not need, which brings revenue for health care and other services that we can reinvest directly to provide benefits for veterans.

In many ways, VA is ahead of the power curve. We have had a Capital Asset Realignment for Enhanced Services (CARES) process underway now for a number of years. This document was approved in May 2004, and it is our blueprint for meeting the current and future health care needs of our veterans in modern, efficient health care facilities, and it is updated regularly.

Based on the capital investment process for CARES, VA has plans to develop and build four new medical centers and also to consolidate existing campuses—for example, the Cleveland campus from two campuses to one, and the Pittsburgh campus from three to two. At the same time, we are putting facilities where veterans live and where the demographics required them, for example, in Las Vegas, Nevada, and Orlando, Florida.

VA uses performance metrics to evaluate and analyze how well our assets are performing, and these measurements are aligned with the Federal Real Property Council, and they have the performance measures of cost, condition, utilization, and mission dependency.

VA uses every means available to dispose of unneeded assets. We have disposed of 156 buildings since 2004, and we have plans to dispose of 146 more, and 2.7 million gross square feet, this year and next year.

While we have many challenges, we are using innovative ways to deal with the situation in today's real estate market, and the way to succeed, we believe, is to find a win-win-win for the local community, for the Federal Government, and, most importantly, for veterans. The reuse of Federal buildings through, for example, VA's enhanced-use lease authority, allows for us to transfer buildings and real estate from the Federal to the non-Federal sector without adversely affecting the local community, VA facilities, or, most importantly, veterans.

Our great enhanced-use lease program provides a proven method of leveraging our real estate portfolio, and it has brought significant cost savings, realignment of underperforming assets, and also produces the "highest and best use return" for veterans and taxpayers.

We have processes in place to ensure that dollars spent on capital assets make business sense and meet the goals of the Department and align with the goals of the FRPC and the President's Executive order. We have processes in place also to evaluate leasing and major equipment purchases, and we are always striving to link our real property initiatives with our capital planning process.

Of course, throughout this process, we have worked with OMB and the Congress and will continue to do so.

So, Mr. Chairman, thank you for the opportunity to be here today to tell you about some of the progress we have made and the efforts we have underway, and I am happy to answer your questions.

Chairman CARPER. Mr. Henke, that is a pretty good story, and we look forward to coming back and asking some questions about it.

Mr. Grone, welcome. Your full statement will be entered into the record, and we are anxious to hear what you have to say. Thank you.

**TESTIMONY OF PHILIP W. GRONE,[1] DEPUTY UNDER SECRETARY OF DEFENSE, INSTALLATIONS AND ENVIRONMENT, U.S. DEPARTMENT OF DEFENSE**

Mr. GRONE. Mr. Chairman, I appreciate the opportunity to appear before the Subcommittee today on the management of Federal real property and to provide some insight to the progress being made within the Department of Defense.

Federal real property was first designated in January 2003 as a high-risk area by the Government Accountability Office because of issues concerning inaccurate inventory reporting, deteriorating facilities, unidentified underutilized facilities, and the challenge of protecting facilities from future terrorist attacks.

Realizing that the Department of Defense has challenges with properly managing and maintaining its assets, DOD has undertaken an aggressive, comprehensive program to transform business processes with the end goal of having complete integrated lifecycle asset management—from planning through disposal.

Management of the Department of Defense portfolio, which currently comprises over 533,000 buildings and structures, over 51,000 square miles of real estate, and a plant replacement value in excess of $710 billion, is founded on a multitiered strategy that is designed to prevent deterioration, counter obsolescence, enhance the military readiness and capability of real property assets, and eliminate excess capacity.

To support this strategy, the Department's business practices on real property inventory controls are being fundamentally transformed through the Business Management Modernization Program. DOD has established standardized business processes, business rules, and data elements for real property assets to drive accurate, authoritative, comprehensive, secure, and timely enterprise property information. In support of these requirements, the systems of the military departments and the components and their processes are currently being modified, and all of this is scheduled to be completed in fiscal year 2009. A real property registry is being established in this calendar year, which will assign unique identifiers to all DOD real property to enable consistent management of real property across the Department.

The Department's efforts to reshape and reposition installation assets through base realignment and closure and the Global Posture Review are also significant. BRAC 2005 affects over 800 locations across the Nation—which, I may add, is 2½ times the size

[1] The prepared statement of Mr. Grone appears in the Appendix on page 87.

of all prior rounds of BRAC combined—through 24 major closures, 24 major realignments, and 765 lesser actions. In the end, State facilities amounting to a net of roughly $20 billion of plant replacement value will come off the Federal books through BRAC, and an equivalent number will come off through our overseas Global Posture Realignment.

The elimination of excess and obsolete facilities in the inventory, an effort separate and distinct from the BRAC process, continues to be another key element of the Department's asset management plan. Efforts are underway to refine the manner in which disposals are forecast and to reflect them more accurately in the real property inventory. The Department is also in the midst of a second demolition initiative, separate from BRAC, which targets 50 million square feet of facilities and additional excess infrastructure by the year 2013. This follows our successful completion in 2003 of the demolition of 86 million square feet.

The Department continues to refine our modeling for recapitalization, facilities sustainment, installation support, and real property services, all of which are benchmarked to best practices in the public and private sector and each of which is designed to guide investment choice and to enhance our understanding of lifecycle asset management cost.

Mr. Chairman, the Department recognizes the need to ensure improved real property asset management practices and accountability. I sincerely thank you and this Subcommittee for the opportunity to highlight the Department's success as well as our challenges in the management of DOD's real property portfolio and to outline our plans for continued improvement in the future.

I appreciate your continued support, and we look forward to working with you as we continue to transform and move these plans to action. Thank you, Mr. Chairman.

Chairman CARPER. Mr. Grone, thank you so much.

Mr. Goldstein, I will not put you through this one more time, but we will skip over you. Thanks for staying around.

Mr. Winstead, welcome.

**TESTIMONY OF DAVID WINSTEAD,[1] COMMISSIONER OF PUBLIC BUILDINGS SERVICE, U.S. GENERAL SERVICES ADMINISTRATION**

Mr. WINSTEAD. Thank you. Chairman Carper, thank you so much. I am David Winstead. I am the Commissioner of Public Buildings at the GSA. I am pleased to be here to address this important issue of Federal property asset management as well as disposal. And as you know, we are the primary landlord to most civilian agencies, and our real estate portfolio is driven very much by our customer agencies' missions and needs while our performance of our portfolio is driven really by a strategic approach to asset management, much as some of the other panelists have talked about.

GSA, like many landholding agencies, has made significant progress in addressing the issues outlined in the GAO high-risk series. Today, I would like to address GSA's asset management strat-

[1] The prepared statement of Mr. Winstead appears in the Appendix on page 95.

egy and our progress towards reducing vacant and underutilized space, our data reporting efforts, and our participation on the Federal Real Property Council, which Clay Johnson is a key part of.

I would like to also discuss two related issues: The issue of current reinvestment challenges in terms of reinvestment of our own portfolio, as well as increased reliance on operating leases.

In terms of asset management and property utilization, as highlighted in today's first panel, GAO described the continuing challenge of managing Federal real property and identifying several agencies with over 10 percent of their property inventory as vacant or underutilized. GSA has two very vigorous efforts underway to reduce the amount of vacant space and underutilized property, as well as government-wide, our Office of Real Property Disposal assists other landholding Federal agencies in terms of their disposal of underutilized assets.

Internally, GSA has made significant progress, we think, over the last 4 years or so in reducing the amount of vacant and underutilized property in our owned inventory. In fiscal year 2003, we initiated a strategy to restructure our portfolio of owned assets. We have made, I think, credible progress nationwide, and since the end of fiscal year 2006, we have reduced the percentage of under- or non-performing assets from 45 percent to 30 percent. We have reduced vacant space from 9.2 percent to 7 percent, which is significantly below, by the way, the private sector average of 11.6-percent vacancy in the commercial market. We have reported as excess 258 assets, disposing of 52 buildings totaling 15 million square feet, and this has avoided carrying costs of about $588 million in terms of capital reinvestment needs.

As a result of this restructuring initiative, by the end of fiscal year 2006 less than 3 percent of our nearly 9,000 owned and leased properties met the FRPC's definition of vacant or underutilized. The 251 assets identified as vacant or underutilized included 149 government-owned and 102 leased properties. Of these assets considered vacant or underutilized, 84, or 56 percent, have already been reported excess to the needs of the agency and are in the disposal process; 4 additional assets are planned for disposal; 22, or 15 percent, are mission-critical facilities such as courthouses; and 13, or 9 percent of inventory, are vacant due to a major modernization and will be fully occupied once those modernizations are completed.

Senator, I would mention, because it was commented on earlier in questions, about the speed which we are now doing this. I would like to mention that under our disposal process, we are taking about 240 days average in terms of disposal through utilization and also donation, and only about 170 days if we are going to public sale or negotiated sale. So we really have addressed the issue of timing and getting these excess properties out of our inventory.

Under the real property inventory data issue—and I know GAO addressed that, and Federal real property—and Mr. Grone actually chairs the Subcommittee on this—a key element of GSA's process is managing our portfolio is the ability to capture data, to look at performance and analysis of our real estate assets, and strategically move forward on decisions we are making about retaining that asset or disposing of that asset or reinvesting in it.

Under the Federal property government-wide standards, GSA's inventory consists of almost 8,900 total assets, about 380 million gross square feet. When these assets are separated between leased and owned—your comments earlier about the fact we are now just surpassing our owned inventory in terms of leased inventory—but we still have 1,788 owned assets totaling about 219 million gross square feet and another 7,100 leased assets. The annual operating costs for fiscal year 2006 were $4.8 billion, $850 million for government-owned, and $3.9 billion for leased portfolio.

I think that Mr. Johnson and others have testified about the Federal Real Property Council activities. I am pleased to not only advance their objectives and the President's management objectives, but I am also pleased to chair the Asset Management Subcommittee, and I think that we are very proud at GSA for being the first agency to be recognized as "Green" status under the Federal Real Property Standards. We did that by improving by 3.2 percent over the last 5 years. We did that by looking at reducing operating costs to about 4.2 percent below market, and also reporting the assets, as I mentioned earlier.

Just to conclude, I would mention, because I know my time is up, on the reinvestment side, we do have enormous needs in reinvesting in our buildings. The Federal Triangle, our landmark, Cabinet agency headquarters, do require a lot of investment now in terms of their age. We are looking very carefully, about $6.6 billion in terms of reinvestment needs that we have, and we are moving aggressively as we can to do that. I will tell you, though, with cases like the Department of Interior, we do have to have phased modernization. The EOB is now in a three-phase modernization of the White House's Executive Office Building. But we are, I think, doing aggressive reinvestment of the proceeds from the sale of assets, and I think we are also applying the almost $8 billion coming to us through Federal property and the Federal building fund to reinvest in these inventories.

I would mention just in closing that our reliance increasingly on lease is accurate. We have, in fact—and OMB's overview of us for almost two decades has said focus on uniquely government-owned buildings and utilize the efficiencies in the private sector to provide general office space. And that is what we are seeing, and now we have a little bit over 50 percent leased space to the government-owned space.

I would like to put my statement in the record, Senator, for the Subcommittee. I would also like to give to all the Subcommittee Members—every year we produce a State of the Portfolio.[1] This is our fiscal year 2007 document. I would also like to enter this into the record of the hearing.

Chairman CARPER. Without objection, that will be part of the record.

Mr. WINSTEAD. We also are trying on our own in terms of utilizing our buildings and leased space, helping Federal agencies to do a better job in the workplace environment design. We just came out with a new program we are calling "Workplace Matters," which

[1] Copy of the "State of the Portfolio, fy 2007" submitted by Mr. Winstead appears in the Appendix on page 107.

is now being implemented through our realty specialists around the country, and I have also provided a document of that, as to how we can get better value out of both our own space as well as our leased inventory. And I will tell you with great pride, and I think this Subcommittee, in looking at the whole issue of real estate, Federal real estate, should recognize that for almost 17 years now, GSA has administered the Design Excellence Program. The Prettyman Courthouse across the street and the new ATF building over on New York Avenue are examples of our effort and success in drawing in the best architectural minds in the world to build these new Federal landmarks. And just recently I presided over the award of our GSA Design Awards given to some of the winners. Thank you.

Senator CARPER. Let me again thank you for what you all have brought to the table and to us today. And I want to go back to a question I asked of the first panel, and that is, what do we need to do on the legislative side in order to save some money here and to really use common sense and enable our agencies to use common sense, to incentivize them to do the kinds of things that Mr. Henke talked about.

Mr. Rutherford, let me just start with you. What do we need to do on the legislative side here?

Mr. RUTHERFORD. Well, I mentioned in terms of some of the enhanced authority with——

Chairman CARPER. Go through that again, please.

Mr. RUTHERFORD. Well, I mentioned in my testimony with regard to having the authority to retain a portion of the proceeds, if not the total proceeds. The Forest Service, which is part of USDA, has that authority through—I believe it is calendar year 2008. They have been able to utilize that to take money that they can then apply to the maintenance of existing facilities, critical facilities.

Chairman CARPER. Let me just interrupt you. Mr. Winstead, why is it that we have some agencies that have authority and in the case of USDA one portion of a larger agency has authority? And it sounds like it expires in a year or so. How does that happen? It sounds like a bit of a mish-mash here.

Mr. WINSTEAD. Right. Senator, it is, and we have those three agencies with enhanced-use leasing authority. We did not have it until our retention efforts in the fiscal year 2006 appropriations act—2005, rather. We actually got now retention of proceeds for the first time. Although we do not have enhanced-use leasing, we do have under disposal authority of Section 412 that we are now looking at that gives us some of the same options that we have under enhanced-use leasing.

I think Congress has continually looked at this issue with the purview and, basically the blinders on, of the scoring roles in the Budget Act of 1988, and that has been driving much of this in terms of where can an agency look at special purpose authority such as VA and get that from Congress to deal with certain real estate assets or through BRAC and other means. We do not have it yet, still, and yet we do feel optimistic that under new authority under Section 412 we can do some of the things that are being done under enhanced-use leasing.

I will tell you, though, as all of us on this panel would admit, we do not have the authorities and the tools that the private sector has to look at lease-to-own options, to look at bargain purchase options. Federal Building Bank actually gave us financing authority on several buildings, the last one of which is opening in July, the San Francisco Federal Building. But it has been a disjointed approach, and there have been separate authorities gotten for a specific purpose. So that is really the record to date.

Mr. RUTHERFORD. If I can add?

Chairman CARPER. Please.

Mr. RUTHERFORD. Specific to Agriculture, we have split authority when it comes to Congress. The Forest Service jurisdiction is—the oversight jurisdiction has to do with the same as Interior, whereas the rest of us are under the Agriculture Committee. So whereas those who are looking at the Forest Service—which is our largest landholding agency. They were given specific authority, but it did not necessarily transcend into some of the other areas.

Chairman CARPER. Alright. Mr. Henke, I was impressed by all that you have done at the VA, and as a veteran myself, I applaud a lot of what you are doing outside of real property management. But in terms of what we can do, not necessarily just to help VA, but maybe some of the other agencies that even are not represented here, Mr. Henke, your advice and counsel would be appreciated. We are talking about doing a 5-year pilot, which may or may not make sense. It seems like a long time to wait to get where we need to go. But I think you and some other agencies, forestry and others, have been the pilot, and what we need to do is learn from you and shorten that 5-year time frame to something a lot less.

Mr. HENKE. Sir, I would think that any proposal that allows quicker disposal for agencies, that allows a more streamlined process, and that allows, most importantly, the agency to retain the proceeds of it to carry out its mission would be——

Chairman CARPER. All the proceeds? A portion of the proceeds?

Mr. HENKE. Sir, in the case of VA, we have a particularly wonderful authority in Title 38 to retain the proceeds from our enhanced-use leases to provide better services for veterans. And if I could give you two examples of that, I would appreciate it——

Chairman CARPER. How did you happen to get that? Do you know the genesis of that?

Mr. HENKE. Sir, I believe it was authorized in the 1992 or 1993 time frame. I am not sure of the origin, but a recognition that VA's capital infrastructure was very wide and divergent, and that the best use of those assets was, if not for direct care for veterans by VA, then to retain the resources for VA. But I am not sure about the exact legislative history.

Chairman CARPER. Alright. Thank you.

Mr. HENKE. One example of our enhanced-use lease authority that is really fantastic, in the fall of 2002, as part of our CARES process, we decided to realign medical care in the Baltimore area. We moved some facilities, some care from Fort Howard, into the Baltimore downtown area. And what we have done, as recently as last fall we signed a lease. I remember it was September 28 last year. It is not every day that I get to sign a 75-year document that takes us into 2081, so I remember that. But we have a lease with a private sector entity to finance, design, and build what we call a "life care community," which provides a veteran-focused retirement community with over 1,300 units.

As part of the package there for VA, the developer is going to build a brand-new outpatient clinic (OPC), 10,000 square feet, that will provide medical care for the residents there and for other veterans in the area. So that is really a great win for vets and VA, and that is what we try to do, is to set up an arrangement where the local community wins, the VA manages its portfolio better, and veterans receive the care they need in the setting that they deserve.

The other example, if I may, sir, we have authority under our enhanced-use lease provisions actually to dispose of assets, and we have used that provision in Chicago. I think 4 or 5 years ago, we enhanced-use-leased what we call our Lakeside facility, and then sometime later, we determined that the facility was no longer required for VA, and we would consolidate those to another campus in Chicago. VA received $22 million for the lease and—on the sale of the property, $28 million on disposal, so $50 million retained by VA to enhance services, and in that local area, in Chicago, in that network. So our enhanced-use lease authority is fantastic.

One thing we would ask for support for is that the authority expires in 2011, and we will need to have that authority reauthorized so we can continue to make progress.

Chairman CARPER. Mr. Grone, what can we do to help what you have begun with BRAC?

Mr. GRONE. Well, Mr. Chairman, following in—I do not want to repeat a good deal of what has already been said. I think Mr. Johnson and my colleagues have spent a good deal of time emphasizing, I think, what is the central point, which is something—a framework that is more flexible and more aligned with private sector practice. Not that we will always behave as we are the private sector, because we do have public sector responsibilities. But something that is more flexible and respective of the market dynamics in which particularly my colleagues who do not sit behind large installation complexes have to deal with or they are in the market, but not always able to behave in the market.

And while we at Defense have certain authorities—enhanced-use leasing has been mentioned—we also have authorities for real property exchange, which the Army in particular is using to exchange reserve centers in exchange for real property and other construction considerations. We also have some fairly powerful authorities in BRAC. To the extent that we are able to retain dollars, they stay, not for the deferred maintenance question, but they are retained within the program to be used for other BRAC purposes, which could be used to offset our construction requirements, and in the out-years, after implementation, to mitigate any additional environmental costs that the Department may incur.

But the reason why we have some of the budget restrictions that we have goes back to the whole question in the early 1990s about the liabilities incurred by government-sponsored enterprises, and a lot of the provisions that were in the Budget Enforcement Act of 1990 were designed to get at the question of appropriate visibility of liability to the taxpayer for long lead costs, whether it was for GSA or leasing or whatever it might be.

So the question that I believe Senator Coburn raised earlier about accounting standards, if we can find a way to combine flexibility with transparency and visibility in budgetary terms, that should provide the surety that we need. But what is also critical is that we standardize some of the tools between and among the agencies, because as the inventory chairman of the FRPC, what we are trying to do is standardize data between and among the agencies, which, yes, will provide better reliability for congressional and other oversight, but from a management perspective, if we are all proceeding from a common framework of data, it then allows for the interagency collaboration that Mr. Johnson suggested was necessary so we would make better investment choices. And if we have the data standard but our tool sets are not aligned, that is not as optimal.

So I think it is critically important that whatever we do, that it be a set of authorities that can apply to all agencies, while recognizing that we each have some unique missions that need to be carried out.

Chairman CARPER. Alright. Thanks. Mr. Winstead, do you want to add your comments to my question?

Mr. WINSTEAD. Yes. I think that Mr. Grone addressed it quite well in terms of the uniformity and through the Federal Real Property Council, looking at our relative authorities and see how they can be more effective and more uniform. Obviously, from a legislative standpoint, the proposal that you all are considering about for other agencies, the retention of 20 percent is a good incentive to get, define, analyze excess properties, get them in the marketplace, or get them to public use. Obviously, as mentioned before, more flexibility in terms of the budget rules and looking at transparency as well. Additional authorities that are commonplace in the private sector are obviously those that we always sort of strive for, but we do feel that under this Section 412 we are beginning to get some of those tools to allow us to lease, ground lease or lease back facilities for renovation, but still maintain Federal ownership, which would be good. And also allowing the concept that we see, is the value of approaching. In several cases, we have been very effective, the consolidation of properties for Federal construction use, which, as mentioned before, under a 30-year analysis is always cheaper. And two of those instances over the last number of years, which I think are very effective and demonstrating the value, is our proposal for St. Elizabeth's campus for the Department of Homeland Security, which is well underway and a master planning process, has got historic property issues and others. And the other one, I was just with the Commissioner of FDA last night, the Food and Drug Administration new headquarters in White Oak, Maryland, where we have $1.4 billion. Again, we are taking, in the case of White Oak, a lot of private sector leases that are in the Rockville area in private buildings and bringing them onto a piece of ground we acquired 5 years ago and building a very efficient headquarters for the FDA in government-owned space. That is also a cure for a lot of this.

Chairman CARPER. Thank you. I know that some of the agencies, at least those that are represented on this panel today, have the authority to retain a portion of the proceeds from the disposal of properties. We have been talking about that. And as I understand things, this gives our agencies the incentives, as we have been talking about, to dispose of properties and the proceeds going to the Treasury.

Let me just ask, this authority gives those who have it a little more flexibility to make good use of a piece of property that otherwise would be sitting idle. And the question that I have—and the responses to the questions you have given me, I think you have pretty much answered this question, so I am going to skip over that one and go to the next one.

Mr. Winstead has testified today that GSA is about to reach the point at which the majority of its portfolio will consist of leased facilities. And Mr. Goldstein has testified that agencies are increasing their reliance on leases, sometimes even when other more cost-effective options are available. And I have got a couple of questions about this phenomenon.

My first is: How did we get to this point? I think I have an idea how we got to this point, but I would like to ask it anyway. What is in current law and agencies' property management processes that encourages leases when leases may not make sense? And then in what circumstance do you think leases are appropriate and when are they not appropriate? Senator Coburn said earlier that they are almost never appropriate, but I can envision sometimes when they would be appropriate. But in what circumstances do you think leases are appropriate and when are they not appropriate? Have any of your agencies ever decided to go with a lease knowing that it was not the most cost-effective option? I would especially like you to focus on those last two questions. In what circumstances do you think leases are appropriate or maybe not appropriate? And, finally, have any of your agencies ever decided to go with a lease knowing that it is not the most cost-effective option?

Mr. WINSTEAD. Senator, GSA has a very aggressive analysis, a 30-year lifecycle cost analysis, looking at net present value of the options that we bring up here to Congress. You all authorize everything we do, both owned, built, as well as leased actions. And we are always looking at the owned solution versus the leased solution versus the lease-construction solution to meet our clients' needs. And I will tell you that the overview both from the budgetary standpoint has been for a couple of decades—I have only been with the agency since October 2005, but the philosophy has been use the competitiveness and the economies in the private sector office market, general use market, to tap good leases, good actions to get space solutions for Federal agencies.

When I say that—and 70 percent of our leases for our 60-some agency clients are less than 10,000 square feet. So what generally is a policy——

Chairman CARPER. Say that number again?

Mr. WINSTEAD. About 70 percent are less than 10,000 square feet, so they are small leases, the majority of them are. So what we tend to do and find is that when you are in the market for a small space, a lot of times the efficiency of the private sector, where you do not have—our first rule is always go to a GSA federally owned building to meet that need. Where we do not have that, we do find with the shorter-term leases and the small-space leases, the efficiencies in the private lease market and our ability to tap, competitive lease rates, we are actually achieving about 8 to 9 percent below the market rates that most private sector tenants are getting and, in fact, through this national brokerage contract over the last couple of years, we are seeing we are even getting in some cases 13 percent what the private sector rate is. So we are getting economies.

With that said, this analysis that we perform, our portfolio management people right behind me, a very capable group, when they do a 30-year pro forma on our options, space options, it is almost in every case that government-owned is the best solution from a cost standpoint.

Senator Coburn mentioned—and you did as well—the Patent and Trademark Office. I was not around when that was negotiated by the National Capital Region, but you are correct. Under the 30-year analysis, basically the operating lease was $48 million more expensive than a government solution.

The reality in that instance—and I think also in the Department of Transportation's new headquarters—is the ability to address a one-point-some-billion-dollar headquarters with the constraints of an $8 billion annual budget for GSA in the Federal building resources. We could not get to the construction solution. We could not deliver the needs with the expiring lease DOT had and their need for new headquarters without going a private sector route or lease.

Our preference is—and the economics in most deals—these new FBI field offices, if you look at the 36 field offices we are building for the FBI since September 11, 2001, their new requirements and their new mission, we are seeing if we were to build those 36 field offices, it would be a $1.7 billion cost to the Federal Government. Some of the lease-constructs we are entering now, the aggregate costs for those lease-constructs will be about $160 million. So we are able actually coming here with these perspectives to analyze that and obviously get your approval. But in every instance, we do try to find federally owned property and provide that space. But what I am suggesting is increasingly, now about 50–50, we are finding the solution in the private sector lease market.

Chairman CARPER. Alright. Let me go back to the question I asked. Have any of your agencies ever decided to go with a lease knowing that it was not the most cost-effective option? I would be surprised if the answer were no.

Mr. HENKE. Mr. Chairman, I would have a couple of observations on that.

In the case of VA, leasing gives us the opportunity to respond more quickly to the health care dynamics in the marketplace, and particularly with regard to demographics of where veterans are and where they need access points to care, and also the delivery methodology of care, the modality. In other words, a more outpatient-focused basis than an inpatient basis.

The example of the post-Hurricane Katrina situation in New Orleans, the VA Medical Center in downtown New Orleans was destroyed, and we were able to very quickly establish on the outer perimeter of Greater New Orleans three outpatient clinics, community-based outpatient clinics (CBOCs), and we have about 880 of those across the country, typically in leased space, typically not large structures and not medical-unique space. But in the case of Katrina, we were able to establish clinics in Hammond, LaPlace, and Slidell, Louisiana, to re-establish care in that area. So in that situation, leasing was flexible and made a lot of sense, and the cost considerations were certainly secondary to providing access to care for vets in that area.

Chairman CARPER. Alright.

Mr. RUTHERFORD. Can I add a little bit?

Chairman CARPER. Please.

Mr. RUTHERFORD. With regard to the Department of Agriculture, whereas GSA's average lease is about 10,000 square feet, our average lease is about 3,000 square feet. In our agencies which we consider our customer service agencies, which is the Farm Service, Rural Development, Natural Resource Conservation, the key there is often being close to the customers that they serve. And in many cases, we do a cost/benefit analysis, but in many cases our best approach is to either house in a GSA facility or we will share in many cases with a county or State office, which also requires a lease, but usually at very favorable rates. So often ours is geographically dictated.

Chairman CARPER. Alright. Thanks.

Mr. Henke, in our State, in Delaware, we only have three counties. In our southernmost county, Sussex County, we have two community-based outpatient clinics for our veterans. We have a large veterans population in southern Delaware, large and growing. The VA in our State wants to consolidate those two from one in the western side of Sussex County, the other in the eastern side, and consolidate them in Georgetown into a single space. We talked it through with the veterans organizations in our State, and they believe they will get better care, more comprehensive care at that one central location in Sussex County.

At the same time, VA has been working to find a site for a community-based outpatient clinic in Kent County in the southern part of our State in the Dover area, and I think what they are doing there is they found land, will knock down a structure, and they are going to bring in, I think, about a 6,000-foot modular unit to put it to use and be able to stand it up within just literally days—a couple of weeks.

Mr. HENKE. Yes, sir. The decision package for the next round of community-based clinics is with the Secretary now, and he is about to make a decision and move forward with 30 or more additional CBOCs across the country, and I would expect that decision and announcement to be made very imminently. But we recognize there are situations where there is a great demand and a need to put a clinic in that community, and we will work very aggressively to do that.

Chairman CARPER. Good. Maybe one or two more questions, and then we will call it a morning. GAO has presented us with some startling figures on maintenance backlogs, and apparently the seven agencies they contacted in putting together the high-risk report that inspired this hearing reported more than $77 billion in maintenance backlog. I think I mentioned that number earlier. About $57 billion of that amount is attributable to the Department of Defense alone.

Mr. Grone, I will ask you a question separately about why Defense's backlog is so significant, but to the rest of you, what is it that makes up these backlogs? What kind of problems do they present to you operationally? Is there something that needs to be done, such as a change in management practice or an increase in resources, to help address this problem? If the others want to respond first, and then I will go back to Mr. Grone.

Mr. WINSTEAD. Sure. Senator, I will be happy to respond. In the 2008 prospectus program that is up here, we have about $6.6 billion in the repair and alteration portion of our budget, and the Federal Triangle is an example. They have aged inventory that does require modernization—substantial in the case of the Executive Office Building, a couple hundred million dollars.

But what we are seeing is that it is forcing us to have to manage this renovation in a much more innovative way and phased approach. With that $6.6 billion, we would need on average about $1 billion a year to address it, and we are now getting about $700 million a year. So there is a gap there that we are very concerned about it, and it would take 8 years to essentially resolve that backlog of renovation needs. So we do have about an 8-year backlog that we need to address.

But I would stress to the Subcommittee that what you have heard today is a sort of consistent approach of the Federal Real Property Council on how to manage our assets, and we are exchanging best practices, and what we are—you have had evidence today is that we are all approaching this from the standpoint of let's retain those assets that are most mission critical, that we, for example, have full tenant, we only have 4-percent vacancy in our own spaced inventory, that we are really utilizing them to the highest level of efficiency, and that is our tier one assets, and then maintaining those that still have a lifecycle value for a period of years, and then disposing of them, the third tier, disposing of them, getting them out.

What that will allow us to do as we continue on this path that was started in fiscal year 2002 is the more we get out of underperforming and underutilized and excess properties, the more from the rent revenues coming to the Federal building fund we can put back into repair and alteration and modernization projects.

So exactly what we are trying to do here and what this bill that would incentivize retention from disposal will do is to help refocus this Federal building—from our perspective—fund resources into modernization and repair work. So I think what we have gotten started here very aggressively will help.

Chairman CARPER. Before I call on Mr. Grone, anyone else on the maintenance backlogs?

[No response.]

Chairman CARPER. Mr. Grone.

Mr. GRONE. How much time do we have, Mr. Chairman? [Laughter.]

Chairman CARPER. Ten minutes. I will ask you to use half of that.

Mr. GRONE. Well, I joke, but the answer has a great deal of lineage to it.

Chairman CARPER. Feel free to respond more fully for the record.

Mr. GRONE. I understand, sir. Mr. Johnson talked about the phenomenon in the context of deferred maintenance of the ability to wait one more year, and a lot of this, quite frankly, with an inventory the size of the Department, you can get to large numbers rather quickly. So when we have a plant value of over $710 billion with a legacy of many decades and years of that deferral issue, waiting one more year, how were we in that position because we really could not truly define the requirement.

One of my predecessors many times removed, when he began what became then known as the Excellent Installations program, had a target established of 2 percent of plant replacement value to be plowed back into maintenance on an annual basis, which was also, frankly, the state of industry thinking at the time. But there was no real way to calibrate what was a true requirement.

That thinking later evolved to 3 percent of plant, but in the last 5, 6 years, we have actually begun to deploy, which GAO has had ready access to throughout the process, our modeling techniques for how do we think about the sustainment and maintenance of an asset, how do we think about how to recapitalize it and think about those in portfolio terms so we can think about the investment choice we need to make.

Those models are being benchmarked to both the best practices in the public and the private sector, so the leadership can now see what the requirement is and that it has some foundation in fact other than a calculation, which is 3 percent of some number.

We will work through a good deal of that backlog, particularly through BRAC, as we undertake a fairly significant and sizable recapitalization of the plant as we move and reposition missions. But the critical piece here is that a lot of that backlog is associated with some of the more mundane aspects of the inventory. Over a fifth of our plant is associated with utilities and improvements, like roads, curbing, parking lots, and the like. That is a fifth of the inventory. When we talk about repair and maintenance backlog, we are also talking about repair and maintenance backlog in relation to those types of assets.

So the $57 billion is not, strictly speaking, just the built environment above the ground. It is also is the wires and pipes, the roads, the sidewalks that are associated with those assets, and those are equally important, and we will continue to work through that.

I am less, frankly, focused on backlog of maintenance repairs and management construct because that then becomes part of our recapitalization target. Do we have the business processes in place and the decision tools in place based on real data to understand what we own, where it is, what is its condition, what does it cost us to operate it, and what is its operational availability and capability?

Everything we are doing is built on answering or trying to answer those five questions about any asset with data that is standardized, and then rolling those into our predictive modeling to get a sense of cost. If we are able to do that effectively, I think over time we will have that number, and we will always have a backlog of maintenance and repair of some number. But in the future, I would expect that it would be far less significant than the $57 billion number. But how we got here is simply because in many ways we did not have the tools to do anything else. And what we have said about doing in the last 5, 6, 7 years is building the tool set that allows the leadership, not just of our Department but of any Department, because Department of Energy and others and NASA have looked at the way in which we think about recapitalizing assets and sustainment, and are incorporating some of the things that we have learned into their management models as well.

So there is a lot of sharing, and I want to be very optimistic about chewing our way through that number. But a lot of it, frankly, was because we did not have the know-how and we did not have the tools. And now we have them. The question is understanding the requirement, making risk-based trades against everything else, the other investments we need to make, and for this Department it is a Nation at war, reinvesting in not just our fixed assets but the military hardware that is necessary to transport the force, our people and their costs, some of which we share with my friend to my right, in terms of the things that we need to be concerned about.

So, I think we are on the path, but I do think that number is sort of a significant target of what it is, a constant reminder of the legacy of poor management practice. And that is what we have to work through to make sure that we do not leave that as a legacy for my successors down the road.

Chairman CARPER. Well said.

Mr. Goldstein, you have been good to stay here with us to the bitter end, and for your trouble, I am going to ask you not to give the benediction. I will give that. But I would like to ask you just to sort of reflect on what we discussed with you and Mr. Johnson in the first panel and just reflect on the comments that we have heard here with the second panel, their statements and responses to questions, and just give me what you think should be some of our most important takeaways for the Members of this Subcommittee and our staff.

Mr. GOLDSTEIN. Sure. Thank you, Mr. Chairman, and I appreciate not giving a benediction.

I think a couple things are important. One, I just want to mention that some of the things you have asked today, GAO is continuing to look at. In part for this Subcommittee, we are looking at the whole issue of leasing—some of the things you have asked today you will be seeing in the study that you have requested from us in the near future.

We are also going to shortly begin studies that the Congress has asked us to prepare looking at the backlog as well as looking the whole issue of retained earnings. So many of the things that we have talked about today, we will be able to help shed some light on in the coming months. So I wanted to mention that to you.

I think one of the biggest takeaways that the Subcommittee should have here is that a lot of progress has been made in the last couple years, and you had asked at the beginning if there are things that the Congress might consider doing, and we have talked about some of those in terms of additional authorities. But one thing that you have not mentioned this morning is the whole structure that is in place. At the moment much of the progress that has occurred through the President's Management Agenda and the Executive order has occurred because of the work that this Administration has done and the seriousness with which they have taken the high-risk issue that we presented a number of years ago. But this Administration will not be here forever, and the focus that they place on this issue may not be here forever, either. And so Congress may want to consider whether or not they ought to codify the Executive order or some of the other things that are part of the structure so that the kind of emphasis that has been placed on real property can continue to be placed on it in the future. Because, obviously, initiatives come and go as Administrations come and go, so I think that may be an important aspect of this whole puzzle to ensure success in the future.

Chairman CARPER. Anyone else have anything you want to get off your mind that pertains to this subject before we wrap it up?

[No response.]

Alright. I want to thank each of you for coming, for preparing for the hearing. I want to just express my appreciation for the work that has been done by GAO over the last 5 or so years on this subject and more recently by the Administration in response to GAO's findings and the placement of property management on the high-risk list.

There is obviously a role for the Administration to do more. There is a role for the GAO to be our watchdog. And there is an opportunity for us to conduct oversight, but not just conduct oversight. This is, I think, our third hearing on this subject, and I do not know about the rest of my colleagues, but I am ready to get going with respect to legislation that might be helpful to incentivize the agencies to really—maybe not just incentivize them, but to help unleash them, unleash some energy and incentivize them to use common sense. They all have it. We want to make sure what we have is not precluding their use of that common sense.

As I said before, when you say to an agency that you have this surplus property and you are not using it, we are not going to reimburse you to destroy it or to sell it, if you sell it, you do not get to keep the proceeds, not even the value of the land, you cannot use the proceeds to help work down your unfunded maintenance costs that are out there standing out there by the billions of dollars, that does not make much sense. And we ought to be smarter than that, and we have to find a way to address that and to do so not 5 years from now but more recently. And the idea that we have all these agencies that are leasing space—and it sounds like more all the time—in some cases that makes sense. These VA clinics that we are talking about that Mr. Henke—it might make perfect sense to do that. There are a lot of instances where it does not. But we have a situation where our budget scoring rules say that if you go out and build a property and it maybe takes $10 million, but you decide instead because you can do a long-term lease at a fraction of that cost for 1 year, and because of the way we score that, we incentivize people to make what is over the lifetime of the property the wrong decision, the wrong decisions for the taxpayers. We ought to be smarter than that. And my hope is that by working together we will be smarter than that.

We have made a good start. I am anxious to pick up the pace. I suspect some of you and some of the other agencies that are not here today would like to pick up the pace as well. And the folks that will benefit will be the people that you serve, the people who work with you, and your employees, and the taxpayers who pay the freight for all of us. That is a good agenda to work on, and we look forward to working on it with you.

With that having been said, this hearing is adjourned. Thanks very much.

[Whereupon, at 12:01 p.m., the Subcommittee was adjourned.]

# APPENDIX

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Testimony of the Honorable Clay Johnson III
Deputy Director for Management
Office of Management and Budget

before the

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

May 24, 2007

The Federal Government is achieving measurable results in meeting the President's goal to improve Federal real property management. When the President signed Executive Order (EO) 13327, Federal Real Property Asset Management on February 4, 2004, he charged Federal agencies to manage their real property portfolios at the right size, cost, and condition to most effectively serve program missions and goals. He then launched a new initiative under the President's Management Agenda (PMA) to hold agencies accountable for meeting key milestones and performance outcomes highlighted in the EO. In just over three years, the major elements of the EO and PMA initiative are in place and yielding significant results. Specifically:

- The Federal Real Property Council (FRPC) established the Federal Real Property Profile database which holds inventory and performance data on more than 1.2 million assets with a replacement value of more than $1.5 trillion.
- Agencies have asset-level performance data to assist in decision-making such as identifying those assets in need of investment and unneeded assets suitable for disposal.
- Agencies have disposed of more than $4.5 billion in unneeded Federal real property which puts us half way to meeting the Administration's belief that we have the opportunity to dispose of $9 billion by 2009.

Moving forward, we will work closely with the Government Accountability Office (GAO) to implement the necessary steps to remove real property management from the "high risk" list. In fact, our approach to date has been consistent with many of the recommendations outlined in GAO's most recent report (GAO 07-349, April 2007). Namely, we have:

- promoted more effective property management ***leadership***;
- improved government-wide real property ***information;*** and
- provided enhanced ***asset management tools*** to make federal real property management more effective.

**Leadership.** Today, Senior Real Property Officers are providing dedicated leadership to their agencies, and are active participants in the FRPC and its committees. I chair the FRPC and, since the FRPC began in May 2004, have met with these individuals on a quarterly basis. Without their leadership, the accomplishments that I share with you today would not have been possible.

**Information.** Since December 2005, the government has also developed and maintained a more complete inventory of real property portfolio. Today, agencies are reporting a common set of inventory and performance data, defined by the FRPC, to a government-wide inventory. Further, the inventory and performance data is reported at the constructed or individual asset level (e.g., a building on a Federal campus versus reporting the campus itself) which means that there is transparency to the lowest level of asset detail.

I can also attest to the fact that the data is becoming more reliable each year. In the second year of inventory reporting, we saw improvements in agency submissions and were able to identify specific data problems in need of correction. The visibility of asset level data and the availability of comparative information across reporting years allowed us to quickly identify and address problems. Further, each agency, through the PMA, is now required to submit data integrity plans to the Office of Management and Budget (OMB) to ensure that future submissions are accurate.

**Asset Management Tools.** In 2004, most agencies did not have asset management plans. Today agencies not only have these plans, but all of the plans address the FRPC Asset Management Guiding Principles as well as the agency strategies for asset acquisition, management, and disposition. In addition, agencies have established three year timelines that detail initiatives and specific capital asset projects to meet the goals and objectives outlined in their asset management plans. Finally, the FRPC has established a decision-tool, known as the Performance Assessment Tool, which assists agencies in analyzing the health of their portfolio. Agencies are using the inventory and performance data in conjunction with the Performance Assessment Tool to prioritize their investments to improve asset condition and identify assets suitable for disposition. Through the PMA, OMB is ensuring that all major landholding agencies are utilizing these tools in a manner that ensures better real property management, with emphasis on identifying unneeded assets and establishing and meeting annual disposal targets. Included as an attachment to this testimony is additional information on the FRPC Asset Management Guiding Principles and the Performance Assessment Tool.

**Moving Forward.** I have highlighted the tremendous amount have work that has been done in laying a foundation for improved real property asset management, but Executive Order 13327 is only a first step. We now must implement our strategic vision for leveraging these accomplishments to build and expand on the successful results achieved to date. I believe that we need additional tools to assist in making real property management more effective. The President's Fiscal Year 2008 budget includes a proposal for a real property disposal pilot program which would provide us with the opportunity to explore other reforms to improve the existing disposal process and right-size the real property asset portfolio. Both OMB and GAO agree that agency asset management and disposition efforts could be furthered through legislative enhancements to the disposition process. The President's proposal would establish a five year disposal pilot providing necessary legislative flexibilities to allow agencies to:

- Take direct to market those assets which are most suitable for sale,
- Recover disposal costs, and
- Retain 20 percent of the net proceeds to address the agency's mission critical real property capital asset needs.

I believe that this pilot would provide the necessary incentive for agencies to move forward with more challenging disposal actions that have previously been cost prohibitive for custodial agencies.

In closing, the Federal Government has made significant progress in address many of the recommendations that GAO has highlighted in real property and the real property community is pleased that GAO recognized this progress in its most recent report. We look forward to our continued work with this Congress and GAO on ways to further improve real property management.

Attachment

**Federal Real Property Council Asset Management Guiding Principles:**

1. Support agency missions and strategic goals
2. Use public and commercial benchmarks and best practices
3. Employ life-cycle cost-benefit analysis
4. Promote full and appropriate utilization
5. Dispose of unneeded assets
6. Provide appropriate levels of investment
7. Accurately inventory and describe all assets
8. Employ balanced performance measures
9. Advance customer satisfaction
10. Provide for safe, secure and healthy workplaces

**Federal Real Property Council Performance Assessment Tool:**

The FRPC Performance Assessment Tool (PAT) uses the inventory and performance data reported annually by each agency to the FRPP database to assist the agencies in managing their real property portfolios. The PAT sorts the real property data into different categories (based on a series of filters) to better identify those assets that should be analyzed for potential disposal, prioritized for condition or utilization improvements, or managed at the current cost and condition. Authorized agency administrators of the PAT have the ability to run reports and tailor such reports to highlight specific inventory or performance factors such as cost, condition, utilization, geographic location, or asset type.

The PAT also has the capability to produce inter-agency reports focusing on underutilized and excess assets available for sharing or Federal transfer. Agency users can query the available data to locate information by asset type, asset use, asset size, and location. Based on the search criteria, the PAT generates a list of assets along with the custodial agency names and contact information.

United States Government Accountability Office

GAO

Testimony

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

For Release on Delivery
Expected at 10:00 a.m. EDT
Thursday, May 24, 2007

# FEDERAL REAL PROPERTY

# An Update on High-Risk Issues

Statement of Mark L. Goldstein, Director
Physical Infrastructure

GAO
Accountability * Integrity * Reliability

GAO-07-895T

GAO

# Highlights

[illegible]

## Why GAO Did This Study

[illegible]

## What GAO Recommends

[illegible]

May 24, 2007

# FEDERAL REAL PROPERTY

## An Update on High-Risk Issues

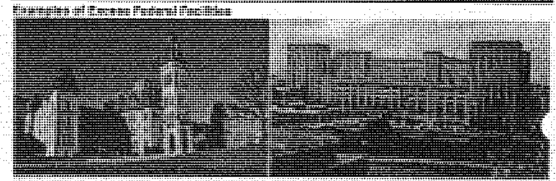
### What GAO Found

The administration and real property-holding agencies have made progress toward strategically managing federal real property and addressing long-standing problems. In response to the President's Management Agenda real property initiative and a related executive order, agencies have, among other things, established asset management plans; standardized data reporting; and adopted performance measures. Also, the administration has created a Federal Real Property Council (FRPC) and plans to work with Congress to provide agencies with tools to better manage real property.

These are positive steps, but underlying problems still exist. For example, the Departments of Energy (Energy) and Homeland Security (DHS) and the National Aeronautics and Space Administration (NASA) reported that over 10 percent of their facilities are excess or underutilized. Also, Energy, NASA, the General Services Administration (GSA), and the Departments of the Interior (Interior), State (State), and Veterans Affairs (VA) reported repair and maintenance backlogs for buildings and structures that total over $16 billion. The Department of Defense (DOD) reported a $57 billion restoration and modernization backlog. Also, Energy, Interior, GSA, State, and VA reported an increased reliance on leasing to meet space needs. While agencies have made progress in collecting and reporting standardized real property data, data reliability is still a challenge at DOD and other agencies, and agencies lack a standard framework for data validation. Finally, agencies reported using risk-based approaches to prioritize security needs, which GAO has suggested, but some cited obstacles such as a lack of resources for security enhancements.

In past high-risk updates, GAO called for a transformation strategy to address the long-standing problems in this area. While the administration's approach is generally consistent with what GAO envisioned, certain areas warrant further attention. Specifically, problems are exacerbated by underlying obstacles that include competing stakeholder interests, legal and budgetary limitations, and the need for improved capital planning. For example, agencies cited local interests as barriers to disposing of excess property, and agencies' limited ability to pursue ownership leads them to lease property that may be more cost-effective to own over time.

Examples of Excess Federal Facilities



Source: VA and GSA.

From left to right: [illegible]

Mr. Chairman and Members of the Committee:

We welcome the opportunity to testify on the actions that are needed to address the long-standing problems that led to our designation of federal real property as a high-risk area. 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 updates on this area in January 2005 and January 2007.[1] My testimony is based largely on a recent report on federal real property high-risk issues,[2] and other GAO reports and testimonies on real property issues. My testimony focuses on the progress made by the administration and major real property-holding agencies[3] to strategically manage real property and address long-standing problems, and what problems and obstacles, if any, remain to be addressed. I will also provide an update of the President's Management Agenda (PMA) executive branch management scorecard results for the real property initiative for the second quarter of fiscal year 2007.

**Summary**

The administration and major real property-holding agencies have made progress toward strategically managing federal real property and addressing some long-standing problems. In response to the PMA real property initiative and a related executive order, agencies covered under the executive order have, among other things, designated senior real

[1]GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.; Jan. 2003); the report on real property is a companion to GAO's 2003 high-risk update, GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.; Jan. 2005), and *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: Jan. 2007).

[2]GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, GAO-07-349 (Washington, D.C.: Apr. 13, 2007).

[3]For the purpose of this review, we are focusing on eight of the largest real property-holding agencies (these agencies are the Departments of Defense (DOD), Energy (Energy), Homeland Security (DHS), the Interior (Interior), State (State); and Veterans Affairs (VA); the General Services Administration (GSA); the National Aeronautics and Space Administration (NASA). Also included is the United States Postal Service (USPS), which is an independent establishment in the executive branch and is among the largest property holders in terms of owned and leased space.

property officers, established asset management plans, standardized real property data reporting, and adopted various performance measures to track progress. The administration has also established a Federal Real Property Council (FRPC) that supports reform efforts. In addition, the administration intends to work with Congress to provide agencies with asset management tools to more effectively manage real property. For example, VA, NASA, DOD, Energy, Interior, and USPS have limited authorities that allow the agency to enter into enhanced-use lease (EUL) agreements. Each agency has been provided its own statutory authority, and the authority varies from agency to agency. These agencies are also authorized to retain proceeds from the lease and to use them for items specified by law, such as improvement of their real property assets. Additionally, certain agencies such as GSA and VA have been authorized to retain the proceeds from disposal of their real property and to use these proceeds for their real property needs.

Although progress toward strategically managing real property and addressing some long-standing problems has been made, these problems largely persist and the underlying obstacles remain. For example, Energy, DHS and NASA reported that over 10 percent of their facilities are excess or underutilized. In addition, Energy, NASA, GSA, Interior, State, and VA reported repair and maintenance backlogs that total over $16 billion. DOD reported a backlog of more than $57 billion, which includes the cost of restoring and modernizing obsolete buildings. Furthermore, Energy, Interior, GSA, State, and VA reported an increased reliance on operating leases—an approach which we have reported is often more costly for long-term space needs. While agencies have made progress in collecting and reporting standardized real property data, data reliability is still a challenge at some of the agencies, and agencies lack a standard framework for data validation. Finally, all of the major real property-holding agencies reported using risk-based approaches to prioritize security needs, as we have suggested, but cited a lack of resources for security enhancements as an ongoing problem.

In our past high-risk reports, we called for a transformation strategy to address the long-standing problems in this area. The administration's approach is generally consistent with what we envisioned, but certain areas warrant further attention. More specifically, underlying obstacles, such as competing stakeholder interests, legal and budgetary limitations, and a need for improved capital planning, persist. For example, some agencies cited local interests, such as historic preservation advocates or various advocacy groups that want to keep the federal government in their community, as barriers to disposing of excess property. Furthermore, agencies' limited ability to pursue ownership often leads them to lease property that may be more cost-effective over time for them to own. Finally, long-term capital planning efforts to improve the efficiency of government operations continue to be a challenge, and these efforts are not clearly linked with the real property initiative. The federal government has generally not planned or budgeted for capital assets, such as real property, over the long term. In our April 2007 report,[4] we made recommendations aimed at (1) ensuring the validity of agency data, (2) focusing reform efforts to better address the leasing problem and security challenges, (3) and addressing obstacles that include competing stakeholder interests and the need for improved capital planning. OMB agreed with the report and concurred with its recommendations. VA, Energy, DHS, GSA, and NASA generally agreed with the report. State, DOD, Interior, and USPS did not state whether they agreed or disagreed with the report and its recommendations.

## The Administration and Major Real Property-Holding Agencies Have Taken Actions to Strategically Manage Real Property and Address Some Long-standing Problems

Pursuant to Executive Order 13327, the administration has taken several key actions to strategically manage real property. FRPC was established in 2004, which subsequently created interagency committees to work toward developing and implementing a strategy to accomplish the executive order. FRPC developed a sample asset management plan and published Guidance for Improved Asset Management in December 2004. In addition, FRPC established asset management principles that form the basis for the strategic objectives and goals in the agencies' asset management programs and also worked with GSA to develop and enhance an inventory system known as the Federal Real Property Profile (FRPP). FRPP was designed to meet the executive order's requirement for a single database that includes all real property under the control of executive branch agencies. The FRPC, with the assistance of the GSA Office of Government-wide Policy, developed 23 mandatory data elements, which include four performance measures. The four performance measures are utilization, condition index, mission dependency, and annual operating and maintenance costs. In addition, a performance assessment tool has been developed, which is to be used by agencies to analyze the inventory's performance measurement data in order to identify properties for disposal or rehabilitation. In June 2006, FRPC added a data element for disposition that included six major types of disposition, including sale, demolition, or public benefit conveyance. Finally, to assist agencies in their data

[4]GAO-07-349.

submissions for the FRPP database, FRPC provided standards and definitions for the data elements and performance measures through guidance issued on December 22, 2004, and a data dictionary issued by GSA in October 2005. The first governmentwide reporting of inventory data for FRPP took place in December 2005, and selected data were included in the fiscal year 2005 FRPP published by GSA, on behalf of FRPC, in June 2006. Data on the four performance measures were not included in the FRPP report.

## Agencies Have Met Scorecard Standards to Varying Degrees

Adding real property asset management to the PMA has increased its visibility as a key management challenge and focused greater attention on real property issues across the government. OMB has identified goals related to the four performance measures in the inventory for agencies to achieve in right-sizing their real property portfolios and it is the administration's goal to reduce the size of the federal real property inventory by 5 percent, or $15 billion, by disposing of unneeded assets by 2015. In October 2006, the administration reported that $3.5 billion in unneeded federal real property had been disposed of since 2004.

OMB evaluates agencies quarterly on progress and agencies then have an opportunity to update OMB on their status towards achieving green. According to PMA real property scorecards, for the second quarter of fiscal year 2007, the Department of Labor is the only real property-holding agency included in the real property initiative that failed to meet the standards for yellow status as shown in figure 2. All of the other agencies, have, at a minimum, met the standards for yellow status.

**Figure 2: PMA Executive Branch Management Scorecard Results for the Real Property Initiative**

| | FY 2004 | FY 2005 | | | | FY 2006 | | | | FY 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 4th quarter | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | 1st quarter | 2nd quarter |
| GSA | Yellow | Yellow | Yellow | Yellow | Yellow | Green | Green | Green | Green | Green | Green |
| State | Red | Red | Red | Yellow | Yellow | Yellow | Green | Green | Green | Green | Green |
| VA | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow | Green | Green | Green | Green |
| NASA | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Green | Green | Green | Green |
| Energy | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Green | Green | Green |
| Labor | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow | Red |
| HHS | Red | Red | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
| Interior | Red | Red | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
| Justice | Red | Red | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
| DOT | Red | Red | Red | Red | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
| USAID[a] | NA | NA | NA | NA | Red | Yellow | Yellow | Yellow | Yellow | Yellow | Yellow |
| Defense | Red | Red | Red | Red | Red | Yellow | Red | Yellow | Yellow | Yellow | Yellow |
| Army Corps | Red | Red | Red | Red | Red | Red | Red | Yellow | Yellow | Yellow | Yellow |
| DHS | Red | Red | Red | Red | Red | Red | Red | Yellow | Yellow | Yellow | Yellow |
| USDA | Red | Red | Red | Red | Red | Red | Yellow | Yellow | Red | Yellow | Yellow |

Red for unsatisfactory
Yellow for mixed results
Green for success

Source: OMB scorecards.

Among the 15 agencies under the real property initiative, 5 agencies—GSA NASA, Energy, State, and VA—have achieved green status. According to OMB, the agencies achieving green status have established 3-year timelines for meeting the goals identified in their asset management plans; provided evidence that they are implementing their asset management plans; used real property inventory information and performance measures in decision making; and managed their real property in

**Figure 1: PMA Executive Branch Management Scorecard Standards for the Real Property Initiative**

| Green standards | Yellow standards | Red standards |
|---|---|---|
| Agency:<br>• Meets all yellow standards for success;<br>• Established an OMB-approved 3-year rolling timeline with date certain deadlines by which agency will address opportunities and determine its priorities as identified in the asset management plan;<br>• Demonstrated steps taken toward implementation of asset management plan as stated in yellow standards (including meeting established deadlines in 3-year timeline, meeting prioritized management improvement actions, maintaining appropriate amount of holdings, and estimating and optimizing cost levels);<br>• Accurate and current asset inventory information and asset maximization performance measures are used routinely in management decision making (such as reducing the amount of unneeded and underused properties);<br>• The management of agency property assets is consistent with the agency's overall strategic plan, the agency asset management plan, and the performance measures established by the FRPC as stated in the Federal Real Property Asset Management Executive Order. | Agency:<br>• Has a Senior Real Property Officer (SRPO) who actively serves on the FRPC;<br>• Established asset management performance measures, consistent with the published requirements of the FRPC;<br>• Completed and maintained a comprehensive inventory and profile of agency real property, consistent with the published requirements of the Federal Real Property Council;<br>• Provided timely and accurate information for inclusion into the government wide real property inventory database;<br>• Developed an OMB-approved comprehensive asset management plan that:<br>  • Complies with guidance established by the FRPC<br>  • Includes policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission<br>  • Seeks to optimize level of real property operating, maintenance, and security costs. | Agency:<br>• Does not actively participate on the FRPC;<br>• Has not established asset management performance measures or has asset management performance measures that are inconsistent with the published requirements of the FRPC;<br>• Has not completed or does not maintain a comprehensive inventory and profile of agency real property consistent with the published requirements of the FRPC;<br>• Does not provide timely and accurate information for inclusion into the government wide real property inventory database; OR<br>• Has not developed an OMB-approved comprehensive asset management plan. |

Source: OMB.

To achieve these goals and gauge an agency's success in accurately accounting for, maintaining, and managing its real property assets so as to efficiently meet its goals and objectives, the administration established the real property scorecard in the third quarter of fiscal year 2004. The scorecard consists of 13 standards that agencies must meet to achieve green status, which is the highest status. These 13 standards include 8 standards needed to achieve yellow status, plus 5 additional standards. An agency reaches "green" or "yellow" status if it meets all of the standards for success listed in the corresponding column in figure 1 and red if it has any of the shortcomings listed in the "red" column.

accordance with their strategic plan, asset management plan, and performance measures. Once an agency has achieved green status, OMB continues to monitor its progress and results through PMA using deliverables identified in its 3-year timeline and quarterly scorecards. Each quarter, OMB also provides formal feedback to agencies through the scorecard process, along with informal feedback, and clarifies expectations. Yellow status agencies still have various standards to meet before achieving green.

## Agency Actions Intended to Address Some Long-standing Problems

In addition to addressing their real property initiative requirements, some agencies have taken steps toward addressing some of their long-standing problems, including excess and underutilized property and deteriorating facilities. Some agencies are implementing various tools to prioritize reinvestment and disposal decisions on the basis of agency needs, utilization, and costs. For example, GSA officials reported that GSA's Portfolio Restructuring Strategy sets priorities for disposal and reinvestment based on agency missions and anticipated future need for holdings. In addition, GSA developed a methodology to analyze its leased inventory in fiscal year 2005. This approach values leases over their life, not just at the point of award; considers financial performance and the impact of market rental rates on current and future leasing actions; and categorizes leases by their risk and value.

Additionally, some agencies are taking steps to make the condition of core assets a priority and address maintenance backlog challenges. For example, Energy officials reported establishing budget targets to align maintenance funding with industry standards as well as programs to reduce the maintenance backlogs associated with specific programs. In addition, Interior officials reported that the department has conducted condition assessments for 72,233 assets as of fourth quarter fiscal year 2006.

## Further Efforts Made to Strategically Manage and Address Problems

As mentioned previously, Executive Order 13327 requires that OMB, along with landholding agencies, develop legislative initiatives to improve federal real property management and establish accountability for implementing effective and efficient real property management practices. Some individual agencies have obtained legislative authority in recent years to use certain real property management tools, but no comprehensive legislation has been enacted. Some agencies have received special real property management authorities, such as the authority to enter into EUL agreements.[5] These agencies are also authorized to retain the proceeds of the lease and to use them for items specified by law, such as improvement of their real property assets. DOD, Energy, Interior, NASA, USPS, and VA are authorized to enter into EUL agreements and have authority to retain proceeds from the lease. These authorities vary from agency to agency, and in some cases, these authorities are limited. For example, NASA is authorized to enter into EUL agreements at two of its centers,[6] and VA's authority to enter into EUL agreements expires in 2011.[7] In addition, VA was authorized in 2004 to transfer real property under its jurisdiction or control and to retain the proceeds from the transfer in a capital asset fund for property transfer costs, including demolition, environmental remediation, and maintenance and repair costs.[8] VA officials noted that although VA is authorized to transfer real property under its jurisdiction or control and to retain the proceeds from such transfers, this authority has significant limitations on the use of any funds generated by any disposal under this authority. Additionally, GSA was given the authority to retain proceeds from disposal of its real property and to use the proceeds for its real property needs. Agencies with enhanced authorities believe that these authorities have greatly improved their ability to manage their real property portfolios and operate in a more businesslike manner.

Overall, the administration's efforts to raise the level of attention to real property as a key management challenge and to establish guidelines for improvement are noteworthy. The administrative tools, including asset management plans, inventories, and performance measures, were not in place to strategically manage real property before we updated our high-risk list in January 2005. The actions taken by major real property-holding agencies and the administration to establish such tools are clearly positive

[5]This authority allows the agency to lease real property under its control or custody to public and private entities and to accept as payment under the lease either cash or other consideration, such as construction, maintenance, restoration, and repair of facilities, or services that are of benefit to the agency.

[6]42 U.S.C. § 2459j.

[7]38 U.S.C. § 8169.

[8]In 2004, VA was authorized to transfer real property under its control or custody that is not part of an EUL for fair market value and to deposit the proceeds in VA's Capital Asset Fund. 38 U.S.C. § 8118.

steps. However, these administrative tools and the real property initiative have not been fully implemented, and it is too early to determine if they will have a lasting impact. Implementation of these tools has the potential to produce results such as reductions in excess property, reduced maintenance and repair backlogs, less reliance on leasing, and an inventory that is shown to be reliable and valid.

## Long-standing Problems in Real Property Largely Persist and Obstacles Remain

Although clear progress has been made toward strategically managing federal real property and addressing some long-standing problems, real property remains a high-risk area because the problems persist and obstacles remain. Agencies continue to face long-standing problems in the federal real property area, including excess and underutilized property, deteriorating facilities and maintenance and repair backlogs, reliance on costly leasing, and unreliable real property data. Federal agencies also continue to face many challenges securing real property. These problems are still pervasive at many of the major real property-holding agencies, despite agencies' individual attempts to address them.

### The Federal Government Continues to Hold Many Unneeded Assets

Although the changes being made to strategically manage real property are positive and some realignment has taken place, the size of agencies' real property portfolios remains generally outmoded. As we have reported, this trend largely reflects a business model and the technological and transportation environment of the 1950s.[9] Many of these assets and organizational structures are no longer needed; others are not effectively aligned with, or responsive to, agencies' changing missions. While some major real property-holding agencies have had some success in attempting to realign their infrastructures in accordance with their changing missions, others still maintain a significant amount of excess and underutilized property.[10] For example, officials with Energy, DHS, and NASA—which are three of the largest real property-holding agencies—reported that over 10

[9] GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-352T (Washington, D.C.: Feb. 16, 2005).

[10] GSA Management Regulations define not utilized property as an entire property or portion of a property that is not occupied or used for current program purposes of the accountable agency or property that is occupied in caretaker status only. According to a GSA official, property that is not utilized is generally considered vacant. The regulations also define underutilized property as an entire property or portion of a property that is used only at irregular periods or intermittently by the accountable agency or property that is being used for the agency's current program purposes that can be satisfied with only a portion of the property. (41 C.F.R. 102-75.45 and 41 C.F.R. 102-75.50).

percent of the facilities in their inventories were excess or underutilized. The magnitude of the problem with underutilized or excess federal real property continues to put the government at risk for lost dollars and missed opportunities. Table 1 describes the status of excess and underutilized real property challenges at the nine major real property-holding agencies.

**Table 1: Status of Excess Property Challenges at the Major Real Property-Holding Agencies**

| Agency | Status |
|---|---|
| DOD | DOD officials indicated that because its real property holdings are so extensive and DOD has just begun collecting detailed excess facility information, the department has not fully completed its reporting of all excess property. |
| Energy | Energy officials reported that approximately 16 percent of Energy's real property inventory has been identified as excess or underutilized. |
| DHS | According to DHS officials, for the 2006 FRPP submission, the percentage of underutilized real property is 9.7 percent. |
| Interior | In December 2006, Interior reported in the FRPP during fiscal year 2006 that 1,181 assets of 185,527 were disposed, or less than 1 percent of the inventory. Officials reported that Interior is working to address its excess and underutilized facilities, citing two major initiatives undertaken at Interior; (1) Bureau of Land Management (BLM), the Space Management Program and (2) Service First, to better meet space needs and priorities.a |
| GSA | According to GSA officials, 258 buildings, with 13.8 million rentable square feet (RSF), have been reported as excess property. Additionally, 21 buildings, with 0.7 million RSF, are pending disposal or demolition. |
| NASA | NASA officials reported that over 10 percent of all assets are underutilized or not utilized at all. |
| State | According to State officials, the department's properties showed a high level of utilization in 2005. Only about 1.5 percent of the portfolio was reported as underutilized. State has identified 65 properties (less than 0.4 percent of the overseas portfolio for government-owned assets) for potential disposal. |
| USPS | According to USPS officials, 1 percent of its inventory of 8,807 owned properties is considered excess or underutilized. Fewer than 50 properties are considered excess.b |
| VA | According to VA officials, VA has moved from 98 percent utilized space in fiscal year 2005 to 100 percent in fiscal year 2006. In fiscal year 2006, VA disposed of 77 buildings, including 6 buildings via sales, 19 buildings via demolition, and 52 buildings via EUL. |

Source: GAO analysis of agencies' data.

[a]The Space Management Program is a top management initiative to review space requirements and reduce space allocations across the department. Started in 2003 and managed by the Office of Acquisition and Property Management, the program is designed to strengthen management decision making at all levels throughout the life cycle (acquisition through disposition) of owned, leased and GSA-provided space. The Service First Initiative is a cross-agency partnership between BLM and the Department of Agriculture's U.S. Forest Service. It was established several years ago with three broad goals to improve customer service, increase operational efficiency, and enhance land stewardship.

[b]As part of our ongoing work, we are reviewing USPS infrastructure realignment plans.

## Major Real Property-Holding Agencies Still Have Multibillion-Dollar Repair and Restoration Backlogs

Addressing the needs of aging and deteriorating federal facilities remains a problem for major real property-holding agencies. According to recent estimates, tens of billions of dollars will be needed to repair or restore these assets so that they are fully functional. Furthermore, much of the federal portfolio was constructed over 50 years ago, and these assets are reaching the end of their useful lives. Energy, NASA, GSA, Interior, State, and VA reported repair and maintenance backlogs for buildings and structures that total over $16 billion. In addition, DOD reported a $57 billion restoration and modernization backlog.[11] We found that there was variation in how agencies reported data on their backlog. Some agencies reported deferred maintenance figures consistent with the definition used for data on deferred maintenance included in their financial statements.[12] Others provided data that included major renovation or restoration needs. More specifically,

- For DOD, facilities restoration and modernization requirements total over $57 billion. Officials noted that the backlog does not reflect the impact of 2005 Base Realignment and Closures (BRAC) or related strategic rebasing decisions that will be implemented over the next several years.
- For Energy, the backlog in fiscal year 2005 for a portfolio valued at $85.2 billion was $3.6 billion.
- For Interior, officials reported an estimated maintenance backlog of over $3 billion for buildings and other structures.[13]

[11]To determine whether agencies still have repair and restoration backlogs, we asked each agency to provide updated estimates of their backlogs, which we defined as needs in facilities for which major upkeep, repair, and maintenance have not been funded and the repair and maintenance on these assets has been postponed.

[12]Deferred maintenance is defined by the Statement of Federal Financial Accounting Standards No. 6, which includes the accounting standards for deferred maintenance, as maintenance that was not performed when it should have been or scheduled maintenance that was delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so that they can continue to provide acceptable services and achieve their expected life. Maintenance excludes activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended.

[13]It is important to note that the National Park Service, which has responsibility for trails and recreation sites in addition to buildings and other structures, has previously reported an estimated $5 billion maintenance backlog. The estimated $3 billion maintenance backlog reported here does not include roads, bridges, trails, irrigation, dams or other water structures.

- GSA's current maintenance backlog is estimated at $6.6 billion.
- For State, the maintenance backlog is estimated at $132 million, which includes all of the deferred/unfunded maintenance and repair needs for prior fiscal years.
- For NASA, the restoration and repair backlog is estimated at over $2.05 billion as of the end of fiscal year 2006.
- For VA, the maintenance backlog for facilities with major repair needs is estimated at $5 billion, and according to VA officials, VA must address this aged infrastructure while patient loads are changing.

## Despite Long-Term Cost, Several Agencies Reported That Reliance on Leasing to Meet New Space Needs Is Increasing

Many of the major real property-holding agencies continue to rely on leased space to meet new space needs. As a general rule, building ownership options through construction or purchase are often the least expensive ways to meet agencies' long-term requirements. Lease purchases—under which payments are spread out over time and ownership of the asset is eventually transferred to the government— are often more expensive than purchase or construction but are generally less costly than using ordinary operating leases to meet long-term space needs.[14] For example, we testified in October 2005 that for the Patent and Trademark Office's long-term requirements in northern Virginia, the cost of an operating lease was estimated to be $48 million more than construction and $38 million more than lease purchase. However, over the last decade we have reported that GSA—as the central leasing agent for most agencies— relies heavily on operating leases to meet new long-term needs because it lacks funds to pursue ownership.

Operating leases have become an attractive option, in part because they generally "look cheaper" in any given year, even though they are often more costly over time. Under current budget scorekeeping rules,[15] the

[14]According to VA officials, VA does not enter into lease-purchase agreements.

[15]The extent to which capital costs are reflected in the budget depends on how they are "scored." The Congressional Budget Office (CBO) and OMB separately "score" or track budget authority, receipts, outlays, and the surplus or deficit estimated to results as legislation is considered and enacted. CBO develops estimates of the budgetary impact of bills reported by the different congressional committees. OMB also uses the scorekeeping guidelines to determine how much budget authority must be obligated for individual agency transactions.

budget generally should record the full cost of the government's commitment. Operating leases were intended for short-term needs and thus, under the scorekeeping rules, for self-insuring entities, only the amount needed to cover the first year lease payments plus cancellation costs needs to be recorded. However, the rules have been stretched to allow budget authority for some long-term needs being met with operating leases to be spread out over the term of the lease, thereby disguising the fact that over time, leasing will cost more than ownership. Resolving this problem has been difficult; however, change is needed because the current practice of relying on costly leasing to meet long-term space needs result in excessive costs to taxpayers and does not reflect a sensible or economically rational approach to capital asset management, when ownership would be more cost effective.

Five of the nine largest real property-holding agencies—Energy, Interior, GSA, State, and VA—reported an increased reliance on operating leases to meet new space needs over the past 5 years. According to DHS officials, per review of GSA's fiscal year 2005 and 2006 lease acquisition data for DHS, there has been no significant increase in GSA acquired leased space for DHS. In addition, officials from NASA and USPS reported that their agency's use of operating leases has remained at about the same level over the past 5 years.

We did not analyze whether the leasing activity at these agencies, either in the aggregate or for individual leases, resulted in longer-term costs than if these agencies had pursued ownership. For short-term needs, leasing likely makes economic sense for the government in many cases. However, our past work has shown that, generally speaking, for long-term space needs, leasing is often more costly over time than direct ownership of these assets.

## Governmentwide Real Property Data Inventory Is in Early Stages, and Data Reliability Is Still a Problem at the Agency Level

While the administration and agencies have made progress in collecting standardized data elements[16] needed to strategically manage real property, the long-term benefits of the new real property inventory have not yet been realized, and this effort is still in the early stages. The federal government has made progress in revamping its governmentwide real property inventory since our 2003 high-risk designation. The first governmentwide reporting of inventory data for FRPP took place in December 2005, and GSA published the data on behalf of FRPC, in June 2006. According to the 2005 FRPP report, the goals of the centralized database are to improve decision making with accurate and reliable data, provide the ability to benchmark federal real property assets, and consolidate governmentwide real property data collection into one system. According to FRPC, these improvements in real property and agency performance data will result in reduced operating costs, improved asset utilization, recovered asset values, and improved facility conditions, among others.

It is important to note that real property data contained in the financial statements of the U.S. government have also been problematic. The CFO Act, as expanded by the Government Management Reform Act, requires the annual preparation and audit of individual financial statements for the federal government's 24 major agencies. The Department of the Treasury is also required to compile consolidated financial statements for the U.S. government annually, which we audit. In March 2007, we reported that—for the tenth consecutive year—certain material weaknesses[17] in internal controls and in selected accounting and financial reporting practices resulted in conditions that continued to prevent us from being able to provide the Congress and the American people with an opinion as to whether the consolidated financial statements of the U.S. government were fairly stated in conformity with U.S. generally accepted accounting principles. Further, we also reported that the federal government did not maintain effective internal control over financial reporting (including

[16]As previously mentioned in this report, GSA, working under the leadership of FRPC, collaborated with numerous agencies to develop 23 mandatory data elements, which include four performance measures.

[17]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

safeguarding assets) and compliance with significant laws and regulations as of September 30, 2006.[18]

## Individual Agencies Continue to Struggle with Data Reliability Issues

While agencies have made significant progress in collecting the data elements from their real property inventory databases for the FRPP, data reliability is still a problem at some of the major real property-holding agencies and agencies lack a standard framework for assessing the validity of data used to populate the FRPP. Quality governmentwide and agency-specific data are critical for addressing the wide range of problems facing the government in the real property area, including excess and unneeded property, deterioration, and security concerns. Despite the progress made by the administration and individual agencies in recent years, decision makers historically have not had access to complete, accurate, and timely data on what real property assets the government owns; their value; whether the assets are being used efficiently; and what overall costs are involved in preserving, protecting, and investing in them. Also, real property-holding agencies have not been able to easily identify excess or unneeded properties at other agencies that may suit their needs. For example, in April 2006, the DOD Inspector General (IG) reported weaknesses in the control environment and control activities that led to deficiencies in the areas of human capital assets, knowledge management, and compliance with policies and procedures related to real property management. As a result, the military departments' real property databases were inaccurate, jeopardizing internal control over transactions reported in the financial statements.[19]

Compounding these issues is the difficulty each agency has in validating its real property inventory data that are submitted to FRPP. Validation of individual agencies' data is important because the data are used to populate the FRPP. Because a reliable FRPP is needed to advance the administration's real property initiative, ensuring the validity of data that agencies provide is critical. In general, we found that agencies' efforts to validate the data for the FRPP are at the very early stages of development. For example, according to Interior officials, the department had designed

[18]GAO, *Fiscal Year 2006 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Accountability and Fiscal Stewardship Challenges*, GAO-07-607T (Washington, D.C.: Mar. 20, 2007).

[19]DOD, Office of Inspector General, *Internal Controls Related to Department of Defense Real Property*, D2006-072 (Arlington, VA: Apr. 6, 2006).

and was to begin implementing a program of validating, monitoring, and improving the quality of data reported into FRPP in the last quarter of fiscal year 2006.

Furthermore, according to OMB staff, there is no comprehensive review or validation of data once agencies submit their real property profile data to OMB. OMB staff reported that both OMB and GSA review agency data submissions for variances from the prior reporting period. However, agencies are required to validate their data prior to submission to the GSA-managed database. OMB staff reported that some agencies, as part of the PMA initiative, have provided OMB with plans for ensuring the quality of their inventory and performance data. OMB staff reported that OMB has not, to date, requested these plans of all agencies. OMB staff reported that agencies provide OMB with information that includes the frequency of data updates and any methods used for data validation. In addition, according to OMB staff, OMB relies on the quality assurance and quality control processes performed by individual agencies. Also, OMB staff noted that they rely on agency IGs, agency financial statements, and our reviews to establish the validity of the data. Furthermore, OMB staff indicated that a one-size-fits-all approach to data validation would be difficult to implement. Nonetheless, a general framework for data validation that could guide agencies in this area would be helpful, as agencies continue their efforts to populate the FRPP with data from their existing data systems. A framework for FRPP data validation approaches could be used in conjunction with the more ad hoc validation efforts OMB mentioned to, at a minimum, suggest standards for frequency of validation, validation methods, error tolerance, and reporting on reliability. Such a framework would promote a more comprehensive approach to FRPP data validation. In our recent report, we recommended that OMB, in conjunction with the FRPC, develop a framework that agencies can use to better ensure the validity and usefulness of key real property data in the FRPP.

## Physical Security Is Still a Problem for Major Real Property-Holding Agencies

The threat of terrorism has increased the emphasis on physical security for federal real property assets. All of the nine agencies reported using risk-based approaches to some degree to prioritize facility security needs, as we have suggested;[20] but some agencies cited challenges, including a lack of resources for security enhancements and issues associated with securing leased space. For example, DHS officials reported that the department is working to further develop a risk management approach that balances security requirements and the acquisition of real property and leverages limited resources for all its components. In many instances, available real property requires security enhancements before government agencies can occupy the space. Officials reported that these security upgrades require funding that is beyond the cost of acquiring the property, and, therefore, their acquisition is largely dependent on the availability of sufficient resources.

While some agencies have indicated that they have made progress in using risk-based approaches, some officials told us that they still face considerable challenges in balancing their security needs and other real property management needs with their limited resources. According to GSA officials, obtaining funding for security countermeasures, both security fixtures and equipment, is a challenge, not only within GSA, but for GSA's tenant agencies as well. In addition, Interior and NASA officials reported that their agencies face budget and resource constraints in securing real property. Interior officials further noted that despite these limitations, incremental progress is made each year in security.

Given their competing priorities and limited security resources, some of the major real property-holding agencies face considerable challenges in balancing their security and real property management needs. We have reported that agencies could benefit from specific performance measurement guidance and standards for facility protection to help them address the challenges they face and help ensure that their physical

[20]In GAO, *Homeland Security: Further Action Needed to Coordinate Agencies' Facility Protection Efforts and Promote Key Practices*, GAO-05-49 (Washington, D.C.: Nov. 30, 2004) we identified several key practices in facility protection, which included using risk management to allocate resources; leveraging security technology; coordinating protection efforts and sharing information; realigning real property assets to an agency's mission, thereby reducing vulnerabilities; strategically managing human capital; and measuring program performance and testing security initiatives.

security efforts are achieving the desired results.[21] Without a means of comparing the effectiveness of security measures across facilities, particularly program outcomes, the U.S. government is open to the risk of either spending more money for less effective physical security measures or investing in the wrong areas. Furthermore, performance measurement helps ensure accountability, since it enables decision makers to isolate certain activities that are hindering an agency's ability to achieve its strategic goals. Performance measurement can also be used to prioritize security needs and justify investment decisions so that an agency can maximize available resources.

Despite the magnitude of the security problem, we noted that this area is largely unaddressed in the real property initiative. Without formally addressing security, there is a risk that this challenge could continue to impede progress in other areas. The security problem has an impact on the other problems that have been discussed. For example, to the extent that funding will be needed for a sustained investment in security, the funding available for repair and restoration, preparing excess property for disposal, and improving real property data systems may be further constrained. Furthermore, security requires significant staff time and other human capital resources and thus real property managers may have less time to manage other problems.

## Underlying Obstacles Hamper Agency Real Property Reform Efforts Governmentwide

In past high-risk reports, we called for a transformation strategy to address long-standing real property problems. While the administration's current approach is generally consistent with what we envisioned and the administration's central focus on real property management is a positive step, certain areas warrant further attention. Specifically, problems are exacerbated by underlying obstacles that include competing stakeholder interests and legal and budgetary limitations. For example, some agencies cited local interests as barriers to disposing of excess property. In addition, agencies' limited ability to pursue ownership often leads them to lease property that they could more cost-effectively own over time. Another obstacle—the need for improved long-term capital planning—remains despite OMB efforts to enhance related guidance.

[21] GAO, *Homeland Security: Guidance and Standards Are Needed for Measuring Effectiveness of Agencies' Facility Protection Efforts*, GAO-06-612 (Washington, D.C.: May 31, 2006).

## Several Agencies Cited Competing Stakeholder Interests as Impeding Real Property Management Decision Making

Some major real property-holding agencies reported that competing local, state, and political interests often impede their ability to make real property management decisions, such as decisions about disposing of unneeded property and acquiring real property. For example, VA officials reported that disposal is often not an option for most properties because of political stakeholders and constituencies, including historic building advocates or local communities that want to maintain their relationship with VA. In addition, VA officials said that attaining the funding to follow through on Capital Asset Realignment for Enhanced Services (CARES) decisions is a challenge because of competing priorities. Also, Interior officials reported that the department faces significant challenges in balancing the needs and concerns of local and state governments, historical preservation offices, political interests, and others, particularly when coupled with budget constraints. Other agencies cited similar challenges related to competing stakeholder interests. If the interests of competing stakeholders are not appropriately addressed early in the planning stage, they can adversely affect the cost, schedule and scope of a project.

Despite its significance, the obstacle of competing stakeholder interests has gone unaddressed in the real property initiative. It is important to note that there is precedent for lessening the impact of competing stakeholder interests. BRAC decisions, by design, are intended to be removed from the political process, and Congress approves BRAC decisions as a whole. OMB staff said they recognize the significance of the obstacle and told us that FRPC would begin to address the issue after the inventory is established and other reforms are initiated. Without addressing this issue, however, less than optimal decisions that are not based on what is best for the government as a whole may continue.

## Legal and Budgetary Limitations Continue to Hamper Agencies' Disposal Efforts

As discussed earlier, budgetary limitations that hinder agencies' ability to fund ownership leads agencies to rely on costly leased space to meet new space needs. Furthermore, the administrative complexity and costs of disposing of federal property continue to hamper some agencies' efforts to address their excess and underutilized real property problems. Federal agencies are required by law to assess and pay for any environmental cleanup that may be needed before disposing of a property—a process that may require years of study and result in significant costs. As valuable as these legal requirements are, their administrative complexity and the associated costs of complying with them create disincentives to the disposal of excess property. For example, we reported that VA, like all federal agencies, must comply with federal laws and regulations governing property disposal that are intended, for example, to protect subsequent users of the property from environmental hazards and to preserve historically significant sites.[22] We have reported that some VA managers have retained excess property because the administrative complexity and costs of complying with these requirements were disincentives to disposal.[23] Additionally, some agencies reported that the costs of cleanup and demolition sometimes exceed the costs of continuing to maintain a property that has been shut down. In such cases, in the short run, it can be more beneficial economically to retain the asset in a shut-down status.

Given that agencies are required to fund the costs of preparing property for disposal, the inability to retain any of the proceeds acts as an additional disincentive. It seems reasonable to allow agencies to retain enough of the proceeds to recoup the costs of disposal, and it may make sense to permit agencies to retain additional proceeds for reinvestment in real property where a need exists.[24] However, in considering whether to allow federal agencies to retain proceeds from real property transactions, it is important for Congress to ensure that it maintains appropriate control and oversight over these funds, including the ability to redistribute the funds to accommodate changing needs. In our recent report, we recommended that OMB, in conjunction with the FRPC, develop an action plan for how the FRPC will address key problems, including the continued reliance on costly leasing in cases where ownership is more cost effective over the long term, the challenges of securing real property assets, and reducing the effect of competing stakeholder interests on businesslike outcomes in real property decisions.

## Need for Improved Capital Planning Still Exists

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 acquisitions that cost more than anticipated, fall behind schedule, and fail to meet mission needs and goals. In addition, Congress and OMB have acknowledged the need to improve federal decision making regarding capital investment. A number of laws enacted in the 1990s placed increased emphasis on improving capital decision-making practices and OMB's *Capital Programming*

[22]GAO, *VA Health Care: Key Challenges to Aligning Capital Assets and Enhancing Veterans' Care*, GAO-05-429 (Washington, D.C.: Aug. 5, 2005).

[23]GAO-05-429.

[24]GSA has determined, and OMB has concurred, that GSA was provided permanent authority to retain proceeds from the sale or disposition of real property in its annual appropriation for fiscal year 2005.

*Guide* and its revisions to Circular A-11 have attempted to address the government's shortcomings in this area.

Our prior work assessing agencies' implementation of the planning phase principles in OMB's *Capital Programming Guide* and our Executive Guide[25] found that some agencies' practices did not fully conform to the OMB principles, and agencies' implementation of capital planning principles was mixed.[26] Specifically, while agencies' capital planning processes generally linked to their strategic goals and objectives and most of the agencies we reviewed had formal processes for ranking and selecting proposed capital investments, the agencies have had limited success with using agencywide asset inventory systems and data on asset condition to identify performance gaps. In addition, we found that none of the agencies had developed a comprehensive, agencywide, long-term capital investment plan. The agency capital investment plan is intended to explain the background for capital decisions and should include a baseline assessment of agency needs that examines existing assets and identifies gaps and help define an agency's long-term investment decisions. In January 2004, we recommended that OMB begin to require that agencies submit long-term capital plans to OMB. Since that report was issued, VA—which was one of our initial case study agencies—issued its first 5-year capital plan. However, the results of follow-up work in this area showed that although OMB now encourages such plans, it does not collect them, and the agencies that were included in our follow-up review do not have agency wide long-term capital investment plans.[27] OMB agreed that there are benefits from OMB review of agency long-term capital plans, but that these plans should be shared with OMB on an as-needed basis depending on the specific issue being addressed and the need to view supporting materials.

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

[26]GAO, *Agency Implementation of Capital Planning Principles Is Mixed*, GAO-04-138 (Washington, D.C.: Jan. 16, 2004).

[27]GAO, *Three Agencies' Implementation of Capital Planning Principles Is Mixed*, GAO-07-274 (Washington, D.C.: Feb. 23, 2007). This review covers the Offices of Science and Environmental Management within Energy and U.S. Customs and Border Protection within DHS.

Shortcomings in the capital planning and decision-making area have clear implications for the administration's real property initiative. Real property is one of the major types of capital assets that agencies acquire. Other capital assets include information technology, major equipment, and intellectual property. OMB staff said that agency asset management plans are supposed to align with the capital plans but that OMB does not assess whether the plans are in alignment. We found that guidance for the asset management plans does not discuss how these plans should be linked with agencies' broader capital planning efforts outlined in the *Capital Programming Guide*. In fact, OMB's asset management plan sample, referred to as the "shelf document," which agencies use to develop the asset management plans, makes no reference to the guide. Without a clear linkage or crosswalk between the guidance for the two documents, there is less assurance that agencies will link them. Furthermore, there could be uncertainty with regard to how real property goals specified in the asset management plans relate to longer term capital plans.

## Federal Real Property Reform Efforts Still in Early Stages

The executive order on real property management and the addition of real property to the PMA have provided a good foundation for strategically managing federal real property and addressing long-standing problems. These efforts directly address the concerns we raised in past high-risk reports about the lack of a governmentwide focus on real property management problems and generally constitute what we envisioned as a transformation strategy for this area. However, these efforts are in the early stages of implementation, and the problems that led to the high-risk designation—excess property, repair backlogs, data issues, reliance on costly leasing, and security challenges—still exist. As a result, this area remains high risk until agencies show significant results in eliminating the problems by, for example, reducing inventories of excess facilities and making headway in addressing the repair backlog. Furthermore, the current efforts lack an overall framework for helping agencies ensure the validity of real property data in FRPP and do not adequately address the costliness of long-term leases and security challenges. While the administration has taken several steps to overcome some obstacles in the real property area, the obstacle posed by competing stakeholder interests has gone largely unaddressed, and the linkage between the real property initiative and broader agency capital planning efforts is not clear. Focusing on these additional areas could help ensure that the problems and obstacles are addressed.

We made three recommendations to OMB's Deputy Director for Management in our April 2007 report on real property high risk issues.[28] OMB agreed with the report and concurred with its recommendations.[29] We recommended that the Deputy Director, in conjunction with FRPC, develop a framework that agencies can use to better ensure the validity and usefulness of key real property data in the FRPP. At a minimum, the framework would suggest standards for frequency of validation methods, error tolerance, and reporting on reliability. OMB agreed with our recommendation and reported that it will work with the FRPC to take steps to establish and implement a framework. For our second recommendation to develop an action plan for how the FRPC will address key problems, OMB said that the FRPC is currently drafting a strategic plan for addressing long-standing issues such as the continued reliance on costly leasing in cases where ownership is more cost effective over the long-term, the challenge of securing real property assets, and reducing the effect of competing stakeholder interests on businesslike outcomes in real property decisions. OMB agreed that it is important to build upon the substantial progress that has been realized by both the FRPC and the federal real property community in addressing the identified areas for improvement. OMB said that it will share the strategic plan with us once it is in place and will discuss strategies for ensuring successful implementation. For our third recommendation to establish a clearer link or crosswalk between agencies' efforts under the real property initiative and broader capital planning guidance, OMB stated that as agencies update their asset management plans and incorporate updated guidance on capital planning, progressive improvement in this area will be realized.

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.

## Contact and Acknowledgments

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

[28]GAO-07-349.

[29]VA, Energy, DHS, GSA, and NASA generally agreed with the report. State, DOD, Interior, and USPS did not state whether they agreed or disagreed with the report and its recommendations.

May 24, 2007

**For release only by the Senate**
**Homeland Security and Government Affairs Committee**

**DEPARTMENTAL ADMINISTRATION**

Written Statement of
Boyd K. Rutherford, Assistant Secretary for Administration
Before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Chairman Carper, ranking member Coburn, and members of the Subcommittee, thank you for the opportunity to come before your subcommittee to discuss the United States Department of Agriculture's (USDA) implementation of Executive Order 13327, Federal Real Property Asset Management (E.O. 13327) signed by President Bush in 2004, and the findings included in the recent Government Accountability Office (GAO) study entitled "Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform".

I want to begin by providing an overview of the USDA real property profile.

USDA is a leader in America's food and agricultural systems, helping the farm and food sectors operate in a highly competitive marketplace to respond to changing consumer demands for high quality, nutritious, and convenient food and agricultural products. USDA also carries out a wide variety of services and activities related to the management, research, and conservation of the Nation's agricultural resources. As a result of having such a huge mission, USDA manages an extensive asset portfolio. Land, facilities, and other real property held by USDA are an integral support component to its mission.

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USDA reports an acquisition cost of more than $8 billion in real property assets. As the second largest landholder in the Federal government, USDA occupies approximately 89 million square feet of owned, commercially leased, and General Services Administration (GSA) assigned space. USDA also manages 193 million acres of land, of which approximately 99 percent is National Forest land, and a Roads Program totaling 383,900 miles. USDA operates in 23,400 buildings and 31,000 structures having a replacement value of approximately $46 billion.

Executive Order 13327: Federal Real Property Asset Management

With such a large footprint, USDA has made rightsizing the Department's asset portfolio a priority. Executive Order 13327 has provided a framework for addressing the many areas of real property asset management. Since the implementation of E.O. 13327, USDA has taken the following actions to improve its real property management:

1. In May of 2004, USDA established the Corporate Property Automated Information System (CPAIS). CPAIS is a system of record for all real property assets controlled by the Department. Information is now available at the constructed asset level for use at all decision-making levels. For example, managers are able to use the system to determine if excess space may exist within a USDA facility when determining program requirements.

2. The Director of the Office Procurement and Property Management was designated as the Senior Real Property Officer. Glenn Haggstrom, a career federal government executive, serves in that role and reports directly to me. In

addition, he actively serves on the Federal Real Property Council (FRPC), chaired by the Deputy Director for Management for the Office of Management and Budget (OMB).

3. USDA developed a comprehensive asset management plan (AMP). The AMP provides managers with real property procedures and practices currently in place or under development for aligning asset management activities with best practices in the public and private sectors. The AMP guides managers' activities to ensure that assets are in the right place, at the right price, and in the right condition to support mission requirements.

4. In order to assess Departmental progress in managing its real property assets, USDA established asset management performance measures, consistent with the published requirements of the FRPC. USDA now collects data on utilization, condition index, annual operating costs, and mission dependency for real property assets. Analyzing these measures allows managers to make informed investment decisions based on quantifiable data. USDA agencies are developing additional USDA-specific measures that are geared toward ensuring that USDA's assets better support agency goals and objectives. These include: a) reducing the number of unneeded assets in the inventory; b) increasing the condition index of mission critical buildings; c) decreasing the number of operating leases where the average square foot costs exceed the accepted industry average for the respective market area; d) continuing to improve the average utilization of the USDA

portfolio; and e) expanding efforts to limit the growth of the Department's deferred maintenance backlog.

5. USDA has developed a Capital Programming and Investment Process (CPIP) that will formalize project management for capital improvement projects. The CPIP process provides guidance ("a roadmap") that will help agencies ensure all real property asset projects are properly managed; projects' budgets are tracked; and infrastructure to support mission requirements is met.

6. USDA is currently undertaking a project to consolidate staff from seven different leased locations within the National Capital Region (NCR), into a single lease. The result will be an eighteen percent improvement in space efficiency and potentially $24.3 million in cost avoidance over the length of the new lease. The decision to pursue this initiative was reached after an analysis of alternatives for replacing several expiring office leases in the NCR. A business case was developed to determine if consolidation was reasonable comparing four alternatives: a) full consolidation into one building; b) partial consolidation using two buildings; c) retrofitting existing sites for better space utilization; and d) maintaining the status quo. The final analysis recommended full consolidation of staff from seven different locations into a single lease for approximately 330,000 square feet by FY 2011, as the best alternative. This initiative illustrates USDA's commitment to managing inventory at the right cost and size.

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GAO Study

Whereas USDA was not a subject of the GAO study, the Department is working to address the long-standing problems mentioned in the study through implementation of the USDA asset management plan. USDA agencies are evaluating program requirements, asset performance, and facility conditions in determining whether an asset fits the long term mission of the Department. As a result of our evaluation process, 721 buildings have been identified as underutilized and 4,645 buildings or structures as excess to the Department's needs. USDA agencies are evaluating options for improving asset utilization and addressing excess assets, including disposal through sale or transfer and demolition. As an example, the Forest Service, through use of the Facility Realignment and Enhancement Act of 2005, estimates it will dispose of approximately 1,000 to 1,500 buildings through enactment of the conveyance lists for fiscal years 2006, 2007, and 2008. These disposals will reduce the gross square footage in the Forest Service's building portfolio by 1 million to 1.5 million gross square feet. The conveyance program is helping to lower the long-term portfolio maintenance cost by reducing gross square feet and replacing old buildings with new ones. Conveyance is helping the Forest Service to realign its building portfolio to better meet evolving mission and organization requirements to provide more effective public service.

The recent GAO study highlights the Federal government-wide problem with holding excess assets. A number of factors must be considered when deciding between disposal through sale or transfer and demolition and the timeframe for carrying out the decision. Where an unneeded structure is located on a mission critical installation, the appropriate method for disposal is demolition to allow for further enhancement of the installation. As was pointed out in the previously referenced GAO study, often remediation of hazardous materials must be performed prior to demolition. Delays in carrying out a demolition decision often occur, as remediation projects are subject to availability of funding. Similar delays due to the need to remediate can occur where the decision is to sell, donate, or exchange the property.

USDA understands the importance of maintaining the real property portfolio as part of its ability to carry out the mission. Unfortunately, as with most Federal agencies, USDA has a backlog of maintenance and repair projects for its property. Using guidance provided by Executive Order 13327 and OMB, the Department is developing a strategy to address the asset backlog, which for USDA, is estimated at $1.1 billion for buildings and structures, plus another $4.1 billion for national roads. Given the magnitude of the backlog and the limited availability of resources we believe that addressing the backlog will be a long term effort. Our approach is to control the annual growth of backlog in our highest priority facilities by ensuring we allocate adequate funding to address annual operation and maintenance costs, initiating capital projects for those facilities to address the backlog of maintenance requirements as part of the repair or modernization effort, and finally, pursuing an aggressive disposal program for assets that are not needed.

As noted earlier in this testimony, USDA has undertaken a project to consolidate staff from seven different GSA leased locations in the National Capital Region into a single lease. USDA routinely analyzes its lease holdings to determine mission applicability. Overall, we have reduced the number of GSA leases over the past five years by approximately 8 percent. We will continue to analyze our lease holdings to improve utilization and right-size as appropriate.

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USDA generally agrees with the GAO's assessment of the challenges to improving federal real property management. The obstacles to effectively managing federal real property are real and daunting. Some can be overcome through enhanced real property authority. The ability to retain all or a portion of the proceeds from the disposal of excess property provides a real incentive for agency heads to thoroughly analyze their facility requirements. USDA has witnessed this approach in the Forest Service's authority to retain the proceeds on the disposal of administrative sites under the Secretary's jurisdiction.

In addition, authority to enter into Enhanced Use Leases (EUL) provides a means to make meaningful upgrades to facilities while adding to their overall mission. The accompanying guidance to Executive Order 13423, "Strengthening Federal Environment, Energy, and Transportation Management" signed by President Bush on January 24, 2007, specifically references EUL as a means to improve the energy efficiency and the environmental footprint of federal facilities. New authority is not required for USDA to make greater use of Energy Savings Performance Contracts (ESPC); another innovative tool that can provide a means for upgrading important building systems without the outlay of scarce resources.

In conclusion, USDA is committed to ensuring that effective management of real property assets is ingrained in the culture and business processes of the Department. Policies and procedures have been put in place to ensure this effort continues.

Thank you again for this opportunity to discuss USDA's successes in managing its real property assets. I am willing to answer your questions.

FINAL

**Statement of**
**Robert J. Henke**
**Assistant Secretary for 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**

**May 24, 2007**

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you this morning to discuss with you the Department of Veterans Affairs' (VA) process for managing its Federal Real Property and capital assets, and the many initiatives VA has in place to sustain real property reform.

Before discussing how VA manages its Federal Real Property, I want to provide an overview of VA's capital asset inventory. VA maintains portfolios of both owned and leased assets and agreements to meet our organizational needs. As of May 10, 2007, VA owns 5,227 buildings and 32,635 acres, holds 1,133 leases, and maintains 871 asset-related agreements. This amounts to 143,779,810 square feet of owned space and 12,711,220 square feet of leased space (direct and GSA). VA currently is outleasing 5,141,229 square feet of previously underutilized VA space to generate revenue for enhanced veteran services. VA currently has 7,402,303 square feet of vacant space – 5 percent of the Department's overall gross square feet. VA continues to assess current and future real property needs through management initiatives and tools in the capital asset program to ensure the Department meets its infrastructure requirements in a cost effective manner.

VA's capital asset program manages and maintains VA's current and future assets according to Federal guidelines and requirements. The major elements of VA's asset management program are to: (1) have strategic vision; (2) manage what we have most effectively; (3) make prudent investments; (4) measure performance; and (5) the disposal of underutilized and non-mission dependent assets, which brings revenue for health care and other services for our Nation's veterans.

**Strategic Vision**

VA's Strategic Vision for Real Property Management is to promote the efficient and cost effective use of VA real property assets and to assure management accountability. With the majority of these assets supporting health care, this must be accomplished through the CARES (Capital Asset Realignment for Enhanced Services) process in order to meet the current and future healthcare needs of veterans in modern healthcare facilities. The CARES process is updated regularly to meet the evolving healthcare environment. VA continues to make significant progress implementing the CARES decisions of 2004.

Non-healthcare or non-CARES real property assets follow a similar evaluation process to match resources with current and expected demand.

**Manage What We Have Most Effectively**

The second key component of VA's capital asset program is to manage what we have most effectively. VA publishes its Asset Management Plan on an annual basis. The AMP details how VA complies with Executive Order 13327 and fully reflects the Federal Real Property Council's guiding principles and elements, which are essential for an effective federal asset management plan. VA's capital asset management program emphasizes ensuring capital investments fully support the agency mission and strategic goals across all administrations within the Department.

VA uses a life-cycle approach to manage and maintain its assets. A life-cycle management approach develops and monitors asset performance using operational and financial criteria. This begins with formulation and the selection of VA investments and their execution. It continues with day-to-day operations and performance management of assets through their eventual disposal.

VA has employed two strategies for improved real property management in the past few years: 1) more effectively managing our inventory of assets for marginal improvements (without substantial investments) and 2) making selected capital investments to significantly improve our utilization. VA uses all available methods to reduce its portfolio of underutilized and non-mission dependent assets, including enhanced-use lease, sharing, transfer, re-use, like-kind exchanges, deconstruction, mothballing, demolition and sale.

**Making Prudent Investments**

For the third element of asset management, VA utilizes a multi-attribute decision hierarchy methodology to impose a disciplined approach to the decision-making prioritization processes for major capital asset investments. This ensures that all capital investments are based on sound business principles and – most importantly – meet our veterans' healthcare, benefits, and burial needs.

Based on the capital investment process for CARES, VA has 36 fully or partially funded major construction projects from fiscal years (FYs) 2004-2007. These include four new VA Medical Centers, two of which are in Orlando and Las Vegas where VA does not now have inpatient hospital services. Of these 36 projects, North Chicago is physically complete. The status of the remaining is as follows:

- Construction documents prepared – 6
- Construction begun – 14
- Schematics/design development in process – 14
- One project was placed on hold awaiting further CARES study

In addition, there are two significant projects which have been funded with emergency supplemental appropriations – Biloxi and New Orleans – as well as the cleanup of the Gulfport campus destroyed by Hurricane Katrina. The total cost of all 38 projects is $4.7 billion, and $2.7 billion has been appropriated to date for CARES major construction requirements.

VA determines the necessary level of resources to maintain its assets through its sustainment model. The sustainment model is used within the steady-state or management stage of an asset's life-cycle. "Sustainment cost" can be defined as the provision of resources for maintenance and repair activities necessary to keep the current inventory from deteriorating.

One successful method VA uses to manage its underutilized property is its enhanced-use leasing program.

**Enhanced-Use Leasing (EU)**

The Department of Veterans Affairs uses a unique capital asset management tool called enhanced-use (EU) leasing. This program has brought significant cost savings, substantial private investment, new long-term sources of revenues, as well as jobs or tax revenues for State and local sectors. The authority to use this mechanism was originally enacted in 1991, under sections 8161 through 8169 of title 38, United States Code. Renewed in 2001, VA has authority to continue using enhanced-use leasing until 2011. While this authority allows VA to lease land or buildings to both the public (i.e., state and local) and private sectors for up to 75 years, the use of this property must be consistent with VA's mission. Leased property may be developed for non-VA uses, and/or VA uses that will enhance the property. Traditionally, VA land and buildings were acquired and managed by utilizing appropriated funds.

Below are a few examples of successful property portfolio management through EU leasing.

Fort Howard, MD – Life Care Community

In the fall of 2002, Fort Howard inpatient care services were consolidated to other campuses within the VA Maryland Health Care System (VAMHS), allowing VA to transform the campus into a Life Care Community (LCC) through an EU lease. On September 28, 2006, VA executed an EU lease with Fort Howard Senior Housing Associates to finance, design, and develop the LCC, which will provide housing, recreation, medical, skilled nursing, and other health-related services to seniors. Veterans and their spouses will receive priority placement on all 1,300 units and discounts on 40 percent of units. In addition, the developer will replace the current VA outpatient clinic with a new facility to be owned and operated by VA, and will hold 10-acres for potential future use as a Maryland State Veterans home.

Through this lease, VA will provide additional affordable housing for veterans and senior citizens in Maryland, obtain a new 10,000 sq ft outpatient clinic, and eliminate our significant maintenance, repair, and utility costs associated with the aged Fort

Howard campus. This project will save VA an estimated $1,500,000 in construction costs as well as a cost avoidance of approximately $1,000,000 annually. Over 500 veterans have expressed an interest for placement in the LCC.

Leavenworth Mixed-Use Development

On August 5, 2005, VA signed an enhanced-use lease with Eisenhower Ridge Association (ERA) to renovate and to adaptively reuse 38 underutilized 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, educational and community support facilities.

This lease will result in the adaptive reuse of buildings listed on the National Register of Historic Places as well as expansion of services to veterans. The project will also result in additional land (without historic buildings) to become available to the Leavenworth National Cemetery for additional gravesites for veterans and for a columbarium.

**Measure Performance**

VA uses performance metrics to evaluate and analyze how well assets are performing and VA policies and procedures are implemented in maintaining and improving the agency's assets. Aligned with the Federal Real Property Council performance measures of cost, condition, utilization and mission dependency, the VA capital portfolio performance goals are based on the Department's main objective to manage assets in a way that ensures resources are maximized, assets (including VA staff and veterans) are safeguarded, and all opportunities (public, private, or a combination of both) are fully explored. The goals allow VA senior management to monitor the overall health of the Department's capital asset portfolio and provide for informed corporate decision-making. Senior management review of capital asset performance is accomplished at the Deputy Secretary's Monthly Performance Review.

VA Performance Metrics are:

- Percent of Space Utilization as Compared to Overall Space;
- Percent Condition Index;
- Ratio of Non-Mission Dependent Assets to Total Assets; and
- Ratio of Operating Costs per Adjusted Square Foot.

Using the above outlined performance measures and other valuable information, senior management are able to make informed portfolio management decisions.

**Disposals**

As noted earlier, VA uses every means available to dispose of unneeded assets. VA has disposed of 156 buildings since FY 2004, and 146 buildings (2.7 million gross square feet) are planned for disposal in FY 2007 and FY 2008.

Federal Asset Sales Initiative

Each year, the federal government sells personal and real property assets to the public, valued at billions of dollars. The Federal Asset Sales Initiative (FAS) was added to the E-Government initiative of the President's Management Agenda (PMA) to address the currently decentralized approach of federal agencies selling unneeded assets and provide related-asset sale information to the public.

VA is actively engaged in the Federal Asset Sales initiative. VA will continue to dispose of real property assets under the agency's existing authorities. VA is coordinating with the initiative lead to ensure that all VA real property assets available for sale, residential, building, and land assets will be linked to the FAS web site.

**Government Accountability Office (GAO) Recommendations**

There are several challenges remaining in the area of Federal Real Property Reform, as discussed in FEDERAL REAL PROPERTY: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform (GAO 07-349). I'd like to discuss how VA is addressing: data reliability; underutilized real property; EU leasing authority; the maintenance and repair backlog; physical security; and underutilized real property disposal.

Data Reliability

Data reliability is always a challenge; however, VA is validating capital asset data now and has plans to enhance the existing data validation methods in the next year. VA's decision support tool, Capital Asset Management System (CAMS) provides the means and data to compare certain asset expenses to industry or commercial benchmarks for its leasing and energy programs. CAMS provides the ability to view data collectively across multiple fiscal years and systems, proving to be an invaluable tool for data validation.

Also in the area of data validation, VA's Management Quality Assurance Service (MQAS) audits internal controls related to capital asset management, compliance with Federal and VA policies and procedures, consistency with VA strategic goals and objectives, and effectiveness of operations. To date, MQAS has audited VA programs such as the non-recurring maintenance program and the EU lease program. Future plans include likely audits in the FY 2008-2009 timeframe in the following areas:

- Review of capitalized personal property inventory and accounting;

- Validation of data used to establish a baseline for implementing Executive Order 13423 that requires all federal agencies to achieve significant energy, environment, and transportation performance improvements;
- Validation of the data residing in VA's Capital Asset Inventory database;
- Identification of underused space potentially available for advantageous disposition;
- Review of claims process in regard to major and minor construction projects; and
- Leasing for community-based outpatient clinics.

Underutilized Real Property

While there are significant challenges with excess and underused buildings and land, VA is using innovative ways to deal with the situation in today's real estate market. The way to succeed is to find a "win-win" for the community and federal government. Reuse of federal buildings/land, such as outleasing through the enhanced-use lease program, allows for transfer of buildings from the federal to the non-federal sector without adversely affecting the local economy, community or VA facilities.

Enhanced-Use Leasing Authority

VA's EU lease program provides a proven method of leveraging VA's diverse real estate portfolio and market position, as noted by the two examples of successful EU leases mentioned earlier in my testimony. In addition, the program has brought significant cost savings as well as the realignment of under-performing property to produce the "highest and best use" return to veterans, taxpayers and the Government.

Maintenance and Repair Backlog

Like many other agencies, the VA has a large backlog of infrastructure projects, as mentioned in the GAO report. VA's total deferred maintenance needs are approximately $5 billion dollars as supported by VA's current and comprehensive Facility Condition Assessment Report.

The Department is moving aggressively to address the current backlog by providing $2.5 billion in funding to upgrade, maintain, or replace existing facilities; and fully funding the sustainment needs in the FY 2007 ($517 million) and the FY 2008 ($573 million) budget requests.

Physical Security

VA has made considerable progress in the area of physical security for federal real property assets, demonstrating leadership in multi-hazard protection of VA facilities. The following are VA accomplishments in this area:

- Developed physical security assessment methodology for VA facilities, September 2002;
- The Federal Emergency Management Agency requested VA assistance to evolve VA's security assessment process into a system suitable for both private and other public facilities;
- Beginning in FY 2005, included funding for physical security enhancements in major program project budget requests;
- Completed physical security assessments of 140 VA most mission critical facilities in 2006;
- Secretary concurred in VA Physical Strategies Report in May 2006; and
- Completed final draft of Physical Security Design Manual in December 2006.

Underutilized Real Property Disposal

As part of VA's continued CARES effort to realign its medical campuses to better meet the healthcare needs of veterans, VA has been conducting the CARES studies in pursuit of creating efficient, cost-effective and appropriately sized campuses thereby identifying enhanced-use leasing or disposal opportunities for any unused or underutilized property. The original 18 CARES site studies pursued evaluating outstanding health care issues, developing capital plans, as well as determining the best use for the underutilized and excess land and vacant buildings on each site. There were 9 sites evaluated for general reuse and 9 sites evaluated for comprehensive reuse.

Studies have been completed in New York, NY; Louisville, KY; Big Spring, TX; Walla Walla, WA; Montgomery, AL; Waco, TX; Muskogee, OK; Poplar Bluff, MO; White City, OR; St. Albans, NY; and Perry Point, MD. The study in Gulfport, MS ended due to Hurricane Katrina.

Conclusion

VA continues to evaluate its capital asset data elements for both validity and accuracy. VA strives to develop useful information to make informed decisions. The Department works with both Federal agencies and the private sector in determining best practices.

VA has processes to ensure dollars spent on capital assets make business sense and meet the goals of the Department, while aligning with the goals of the FRPC. VA also has processes in place to evaluate requests for leases and major equipment purchases. VA is attempting to better link real property initiatives with its capital planning process.

Throughout the process, VA has worked closely with Congress and the Office of Management and Budget and is committed to keeping members of Congress apprised of VA's efforts to improve property management and promote efficient business practices.

Thank you for inviting us to testify on the important subject of Federal Real Property. Thank you for your interest as we move forward to better performance and sustained reform, and I appreciate your continued commitment to our Nation's veterans. I will be glad to answer any questions that you or other Members of the Subcommittee may have.

HOLD UNTIL RELEASED
BY THE COMMITTEE

**STATEMENT OF**

**MR. PHILIP W. GRONE**
**DEPUTY UNDER SECRETARY OF DEFENSE**
**(INSTALLATIONS AND ENVIRONMENT)**

**BEFORE THE**
**SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT**
**OF THE**
**SENATE HOMELAND SECURITY/GOVERNMENTAL AFFAIRS**
**COMMITTEE**

**May 24, 2007**

Chairman Carper, Senator Coburn and distinguished members of the Subcommittee, I appreciate the opportunity to appear before you today to address the April 2007 GAO report on "Federal Real Property, Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform," and provide some insight to the progress being made within the Department of Defense.

***Overview***

Federal real property was first designated in January 2003 as a high risk area because of issues concerning inaccurate inventory reporting, deteriorating facilities, unidentified underutilized facilities and the challenge of protecting facilities from future terrorist attacks. Since the issuance of Executive Order 13327, "Federal Real Property Asset Management," in February 2004 and the inclusion of real property as an initiative in the President's Management Agenda (PMA), DoD has embraced the importance of improving the accuracy of data collection and management of physical infrastructure.

DoD manages the largest portfolio of real property within the Federal Government with over 533,000 buildings and structures, which reside on over 51,400 square miles of real estate worth in excess of $712 billion. Working in conjunction with the Federal Real Property Council (FRPC) the Department is vigorously managing its facilities and infrastructure to ensure that it delivers cost effective, safe, and environmentally sound capabilities and capacities in support of the National Defense Mission and the Global War on Terrorism.

Realizing that the Department has challenges with properly managing and maintaining its assets, we have undertaken an aggressive, comprehensive program to transform business processes with the end goal of having complete integrated asset management – from planning through disposal. Key transformational programs include:

**Real Property Inventory Requirements (RPIR) Project**

Working together with the DoD business transformation program, the Department undertook a comprehensive business process reengineering project focused on real property asset accountability. DoD developed real property data standards linked to lean lifecycle management processes. The Department instituted a DoD-wide plan for full implementation of the project that includes IT system changes, implementing the data standards, standing up a unique identifier registry (Real Property Unique Identifier Registry (RPUIR) and the creation of a net-centric data warehouse (Real Property Assets Database or RPAD) for all real property that DoD owns, leases or otherwise manages. The Department has already stood up the RPUIR and is well underway with achieving interim operating capability on the net centric RPAD and expects full implementation of the RPIR project by September 30, 2009. When fully implemented, all DoD personnel who manage DoD's real property will have consistent, reliable and accurate real property asset information available to any authorized user for any appropriate management purpose. This will improve our asset management and allow us to have complete visibility of all our assets.

**Base Realignment and Closure (BRAC)**

DoD has begun implementing a significant transformation to the Total Force and its operational capability based on the BRAC 2005 recommendations. BRAC will ultimately affect over 800 locations across the Nation through 24 major closures, 24 major realignments, and 765 lesser actions. BRAC recommendations are expected to reduce our PRV by approximately 3.7 percent or $20B.

**Excess Facilities and Disposals**

The Military Departments, in close collaboration with the affected community and in accordance with the Base Redevelopment and Realignment Manual (BRRM), have the option to use a variety of property conveyance methods that we refer to as the "mixed toolbox." Essential to the Department's success is the local redevelopment plan wherein a local consensus for the uses of surplus property is identified; communities are presently undergoing this planning process. Upon completion, the Military Departments may then dispose of surplus real and personal property at the installation in various ways to support the local redevelopment plan. Timetables for these actions are dependant on the ability of receiver locations to house new operations, and, therefore, at this point, to be determined.

Elimination of excess and obsolete facilities in the inventory, an effort separate and distinct from the BRAC process, continues to be another key element of the Department's asset management plan. DoD continues to encourage the Military Departments to pursue aggressively disposal and demolition to reduce unnecessary facilities sustainment and support costs, improve the overall safety and quality of installations, and ensure that only required infrastructure is retained in the inventory. In 1998, in accordance with Defense Reform Initiative 36, "Disposal/Demolition of Excess Structures," the Department undertook a six-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later, DoD concluded that effort by exceeding its target - removing a total of 86 million square feet. In a continuation of that effort, the Department completed a survey of additional disposal requirements in December 2004. With that survey as a starting point, the Military Services and selected Defense Agencies are in the process of establishing new targets to eliminate over 50 million square feet of facilities and additional excess infrastructure by the year 2013.

Efforts are underway to refine the manner in which disposals are forecast, and to reflect them more accurately in the real property inventory. This will provide a more refined view of the global inventory of facilities that will support improved accuracy in determining requirements for facilities sustainment, restoration and modernization. Key to this effort is the disposal banking process which is an accounting system for tracking disposals not affiliated with a construction project. Disposal banking creates a linkage between eliminated facilities and constructed facilities that are otherwise separated by location and date. The result is a comprehensive view of the impact of disposal and construction on the inventory.

**Sustaining, Restoring and Operating our Infrastructure**

Management of the Department of Defense portfolio is predicated on a multi-tiered strategy that is designed to prevent deterioration, counter obsolescence, restore lost capabilities, and eliminate excess capacity. To facilitate implementation of this strategy, DoD developed models and metrics to predict funding needs and established goals and performance measures that place the management of Defense infrastructure on a more objective, business-oriented basis. Among these continued improvements in business practices is a focus on improving the quality of military installations with emphasis on more accurate facility "Quality Ratings," as well as improving other performance measures including utilization, mission dependency and operating costs.

*Sustainment*: Facilities sustainment provides funds for maintenance and major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle. Sustainment prevents deterioration, maintains safety, and preserves performance over the life of a facility. To forecast funding requirements, DoD developed the Facilities Sustainment Model using standard benchmarks for sustainment unit costs by facility type (such as cost per square foot of barracks) drawn from the private and public sector sources. The Department-wide long-term goal remains to fully fund sustainment to optimize the investment in our facilities and ensure their readiness. In balancing risk across the Department's program, the Fiscal Year 2008 budget request reflects a slight decrease in the Department-wide sustainment funding rate to 88 percent, although the total amount of funds requested for the program represent an increase of $466 million. The Department-wide long term goal remains full funding for sustainment to optimize the investment in our facilities and ensure their readiness.

*Recapitalization*: Recapitalization includes restoration and modernization, provides resources for improving facilities, and is the second element of the Department's facilities strategy. Recapitalization is funded primarily 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. The current DoD goal remains a recapitalization rate of 67 years. In FY 2001, the Department's recapitalization rate was 192 years; by FY 2007, the rate improved to 72 years.

*Operations*: The Department has recently established a common definition for Facilities Operation, formerly referred to as "Real Property Services" to cull out the real funding costs for utilities, leases, custodial services, grounds maintenance, and other related functions. The Facilities Operation Model was fielded in the fall of 2005 to develop standard requirements and the Department is continuing to refine the model with particular emphasis on Fire and Emergency Services and Real Property Management and Engineering Services.

**Federal Real Property Council (FRPC) Leadership and Compliance**

DoD is an active member of the FRPC and currently chairs the Inventory and Performance Measures Committee. The Department of Defense has the largest inventory submission of the Federal government and has successfully met the inventory reporting requirements for the Federal Real Property Profile (FRPP) for the past two years. Last year alone, DoD submitted over 20 million separate pieces of data from five different originating data sources. This data was imported into a web-friendly format for transmission as part of the DoD annual submission. DoD's current process includes the collection of real property inventory data from the three Military Departments, the Washington Headquarters Service and the United States Army Corps of Engineers for processing and electronic submission to the FRPP. The Department has also developed process changes that will ensure that improvement of the accuracy of future data submissions including the establishment of an internal data validation tool.

Consistent with the guidance of the FRPC, DoD developed an asset management plan (AMP) focused on improving asset management planning, inventory and performance measurement data, as well as the disposal of unneeded assets. The asset management plan has been approved by the Office of Management and Budget (OMB) and is consistent with the FRPC standards. DoD is currently implementing the AMP resulting in continued improvements to the DoD asset management program.

**Governance**

The Department recognizes the need to ensure improved real property asset management across all DoD activities and has established a clear governance structure and processes. The Department's transformation initiatives are driven by top leadership and supported across all

Components and all levels. The Installations Capability Council, which oversees the creation and implementation of improvement capabilities, and the Real Property Installations Lifecycle Management Investment Review Board (RP&ILM), ensures that Information Technology (IT) systems are modernized to support the new business enterprise capabilities. These governance processes support federated management because the business owners themselves drive business modernization and the associated support IT. These capabilities have also been completely integrated into the activities of the Business Transformation Agency, ensuring that RP&ILM capabilities support the broader DoD enterprise business transformation efforts.

**CONCLUSION**

In closing, Mr. Chairman, I sincerely thank you and this Committee for this opportunity to highlight the Department's successes and challenges in the management of DoD's real property portfolio and outline its plans for continued improvements in the future. I appreciate your continued support and I look forward to working with you as we continue to transform these plans into actions.

# STATEMENT OF

DAVID L. WINSTEAD
COMMISSIONER

PUBLIC BUILDINGS SERVICE

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

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

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

MAY 24, 2007

Good morning, Chairman Carper, Ranking Member Coburn, and Members of the Subcommittee. My name is David Winstead and I am the Commissioner of the Public Buildings Service (PBS) at the U.S. General Services Administration (GSA). Thank you for inviting me here today to discuss GSA's real property portfolio and how we are strategically managing and improving our Federal assets.

GSA is one of the largest public real estate organizations in the world, with an inventory consisting of nearly 9,000 assets with over 350 million square feet of rentable space across all 50 states, 6 U.S. Territories, and the District of Columbia. We serve over 1 million Federal employees at over 400 agencies and bureaus. Our portfolio consists primarily of office buildings, courthouses, laboratories, border stations, and warehouses.

Our real property portfolio is driven by our customer agencies' missions and needs while our portfolio performance is driven by a strategic approach to asset management. Using the principles developed in our portfolio restructuring strategy, we carefully balance customer demand with market dynamics and the condition and performance of our assets. GSA, like many landholding agencies, has made significant progress in addressing the issues outlined in the Government Accountability Office (GAO) high risk series.

Today, I would like to address GSA's asset management strategy and our progress towards reducing vacant and underutilized property, our data reporting efforts, and our participation on the Federal Real Property Council (FRPC). Additionally, I would like to discuss two related issues: current reinvestment challenges and our increased reliance on operating leases.

**ASSET MANAGEMENT AND PROPERTY UTILIZATION**

The GAO report entitled Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform, highlights the continued challenges of managing Federal real property and identifies several agencies with over ten percent of their property inventory as vacant or underutilized. GSA has two efforts underway to reduce the amount of vacant and underutilized property. Government-wide, our Office of Real Property Disposal assists other landholding Federal agencies dispose of their underutilized assets. Internally, GSA has made significant progress in reducing the amount of vacant and underutilized property in our own inventory.

In fiscal year 2002, GSA initiated a PBS strategy to restructure our portfolio of owned assets. Our goal is to create a real property portfolio comprised of financially performing assets where there is a long-term Federal need. GSA reinvests in these assets to optimize and preserve their value for customer agencies and taxpayers. We have made progress nation-wide and since the end of fiscal year 2006 we have:

- Reduced the percentage of under and non-performing assets from 45 percent to 30 percent;
- Reduced vacant space from 9.2 percent to 7 percent, which is significantly below the 2006 industry average rate of 11.6 percent; and
- Reported as excess 258 assets and demolished 52 buildings totaling over 15 million square feet, achieving a cost avoidance of $588 million in capital reinvestment needs.

Based on our asset management practices and implementation of our portfolio strategy, GSA achieved an "effective" rating from the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART).

As a result of our restructuring initiative, by the end of fiscal year 2006, less than three percent of our nearly 9,000 owned and leased properties met the Federal Real Property Council's definition of vacant or underutilized. The 251 assets identified as vacant or underutilized include 149 Government-owned and 102 leased properties. GSA uses a number of strategies to address these non-performing assets. These strategies range from cost containment, outlease, exchange of assets, and conveyance of assets to tenant agencies, to finally, disposal.

Of the 149 Government-owned assets currently considered vacant or underutilized, 84 (56 percent) have already been reported excess to the needs of the agency and are in the disposal process; 4 additional assets are planned for disposal; 22 (15 percent) are mission critical facilities such as Courthouses; and 13 (9 percent) are vacant due to a major modernization and will be fully occupied upon completion of the project.

As I mentioned earlier, there were 102 leased facilities determined to be underutilized in fiscal year 2006. GSA eliminates vacant leased space by backfilling space with other customers, terminating the lease or partially vacating, or buying out the remaining lease term whenever possible. At the end of fiscal year 2006, GSA's leased vacancy rate was 1.5 percent, far below the private sector rate.

PBS also works closely with GSA's Office of Governmentwide Policy (OGP) to improve real property asset management. OGP supports PBS by providing Government-wide real property policy in the areas of regulatory and legislative reforms, asset management principles and the sharing of best practices.

In 1997, GSA's Office of Governmentwide Policy's Achievement Award for Real Property Innovation program was established to serve as a catalyst for Federal agencies to improve real property management and to recognize best management practices. During the past ten years since the award program inception, the program has attracted hundreds of unique ideas from throughout the Federal real property community. OGP has shared and communicated them through a special edition of the Real Property POLICYSITE Newsletter and the website at www.gsa.gov/realpropertypolicy. These ideas cover a wide spectrum of real property areas, including business practices, asset management and planning, customer service, information systems, performance measures, security, sustainability, and workforce/human capital strategy.

GSA's Office of Governmentwide Policy also develops government-wide real property regulations, bulletins and guidance governing GSA and agencies to which real property authority has been delegated. These regulations are written in plain language, easy to understand, question and answer format. These regulations, bulletins and guidance cover the full range of topics concerning real property asset management, from real property acquisition, to operation and maintenance, and the eventual disposal of the real property asset.

**REAL PROPERTY INVENTORY DATA**

A key element of managing our portfolio is the ability to capture data, analyze and evaluate performance, and strategically move forward on our decisions. GSA has a robust inventory system that is capable of accurately and consistently reporting real property data and meets the Federal Real Property Council's (FRPC) inventory reporting requirements for 24 mandatory data elements, including four performance measures: cost, condition, utilization, and mission criticality. All agencies are required to report the FRPC defined inventory data, including the performance data, to the Federal Real Property Profile (FRPP) on an annual basis.

Using the FRPC's Government-wide standards, GSA's inventory consists of 8,908 assets[1] totaling over 380 million gross square feet (gsf)[2] nationwide. When these assets are separated between leased and owned, the portfolio consists of

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[1] Assets include buildings, land, and structures.

[2] The Federal Real Property Council's standard for measuring space is gross square feet. GSA measures space in both gross square and rentable square feet. Because GSA's inventory is assigned and rented to customer agencies using rentable square feet, GSA's inventory and most agency benchmarks and performance measures are reported using industry standards for rentable square feet. The rentable square footage of a building does not include construction space such as the thickness of exterior walls or vertical penetrations such as elevator shafts or stairwells that are included in gross square footage calculations because they are not assigned or rented to a tenant.

1,788 owned assets totaling approximately 219 million gsf and 7,120 leased assets representing 172 million gsf. The annual operating costs for fiscal year 2006 were $4.8 billion, $850 million for government-owned and $3.9 billion for leased locations. The replacement value of the owned inventory is $38.9 billion.

Internally, GSA tracks and manages its real property assets in the System for Tracking and Administering Real Property (STAR). STAR is the primary tool we use to store inventory data, building data, customer assignment data and lease information for over 20,000 customer space assignments. STAR provides access to business data on a nationwide basis to our realty specialists, property managers, asset managers and portfolio managers. This supports responsible asset management in the following ways:

- Business Management
- Space Management
- Occupancy Management
- Lease Management
- Security Management

**FEDERAL REAL PROPERTY COUNCIL ACTIVITIES**

One of my top priorities since joining the Public Buildings Service in 2005 has been advancing the President's Management Agenda (PMA), particularly in the area of Real Property Asset management. I am pleased to report that our agency has become a recognized leader in implementing the President's Executive Order 13327 on Real Property Asset management and has taken a prominent role on the Federal Real Property Council, becoming the first agency recognized by the Administration for achieving and maintaining "Green" status on the PMA scorecard. We have continued this effort and in fiscal year 2006, GSA demonstrated significant results in rightsizing our portfolio. By focusing on asset utilization, condition, operation, and Federal agency need, GSA has:

- Improved utilization by increasing occupancy by 3.2 percent over the past five years;

- Met or exceeded FRPC standards for facility conditions in over 75 percent of our inventory;
- Maintained operating costs at approximately 4.2 percent below market;
- Reduced energy consumption 4.4 percent below the 2005 baseline;
- Reported excess and accepted 258 assets into the disposal process since fiscal year 2002; and
- Transferred 119 assets from GSA's custody and control to other Federal agencies, public bodies, or the private sector since fiscal year 2002.

The impact of these actions has been a reduction of nearly 15 percent of our owned assets and 8 percent reduction in our owned square footage. By eliminating these underutilized assets, GSA has established a more efficient and cost effective portfolio. This has avoided approximately $588 million in reinvestment liabilities, which provides additional reinvestment dollars for core assets to support our long-term customer requirements.

As chair of the Federal Real Property Council's Asset Management Subcommittee, I have been working with the other Federal agencies to support the President's proposed language in the fiscal year 2008 budget that would allow all agencies to retain proceeds from the sale of assets. GSA was given the authority, by Congress, to use the proceeds from the sale or outlease of GSA-owned assets in 2005 for real property purposes. GSA is permitted to use those sale proceeds retained in the Federal Buildings Fund only when Congress reauthorizes GSA to expend FBF funds through the Congressional appropriations process. Retention of proceeds from sale is a good incentive for agencies to dispose of unneeded assets and provides a much needed source of reinvestment funds. We hope that this Committee will take the lead in moving forward on the President's proposal so that all agencies will be able to benefit from this authority.

As you know, Executive Order 13327, Federal Real Property Asset Management, established the Federal Real Property Council (FRPC) and tasked the FRPC and GSA's Office of Governmentwide Policy with developing a centralized real property database to track all Federal real property assets. This database, called the Federal Real Property Profile, was significantly enhanced in 2005 and 2006 to meet the specific disposition goals of EO 13327 and help identify unneeded properties Government-wide. Enhancements to the OGP-managed FRPP include:

- Defined 24 data categories, including four performance metrics: Utilization, Mission Dependency, Facility Condition Index, and Operating Costs. The performance metrics will allow the Federal Government to better manage its portfolio and assess and track excess, vacant, and under-utilized properties.
- Developed the FRPP Performance Assessment Tool, a software application that analyzes FRPP's performance data and generates reports to assist agencies will identifying properties in need of improvement, those to be maintained at the current condition, and potential properties for disposition.
- Added new Disposition data element into FRPP in 2006. The Disposition data element tracks assets that have been transferred within or have exited the Federal portfolio.

OGP will continue to work with the FRPC to enhance and maintain the FRPP to maximize its functionality as an asset management tool. OGP will also continue to work with Federal agencies to track and measure their disposition-related data to agencies' efforts towards "right-sizing" their real property inventories.

**REINVESTMENT CHALLENGES**

As documented by GAO and reconfirmed this year in the "High Risk Series," all Federal landholding agencies are struggling to fund reinvestment needs. In the aggregate, using all of our methods to evaluate reinvestment needs, our reinvestment liabilities are becoming more challenging. Portfolio Restructuring has helped, but increased market costs for labor and construction materials exacerbate this problem.

GSA is endowed with a unique and aging inventory of courthouses, Federal buildings, border stations and other public buildings, some of them historic. Using a portfolio strategy and making decisions based on solid asset management principles, GSA is concentrating reinvestment on core assets and disposing of underutilized assets where the amount of reinvestment needed is higher than alternative housing solutions.

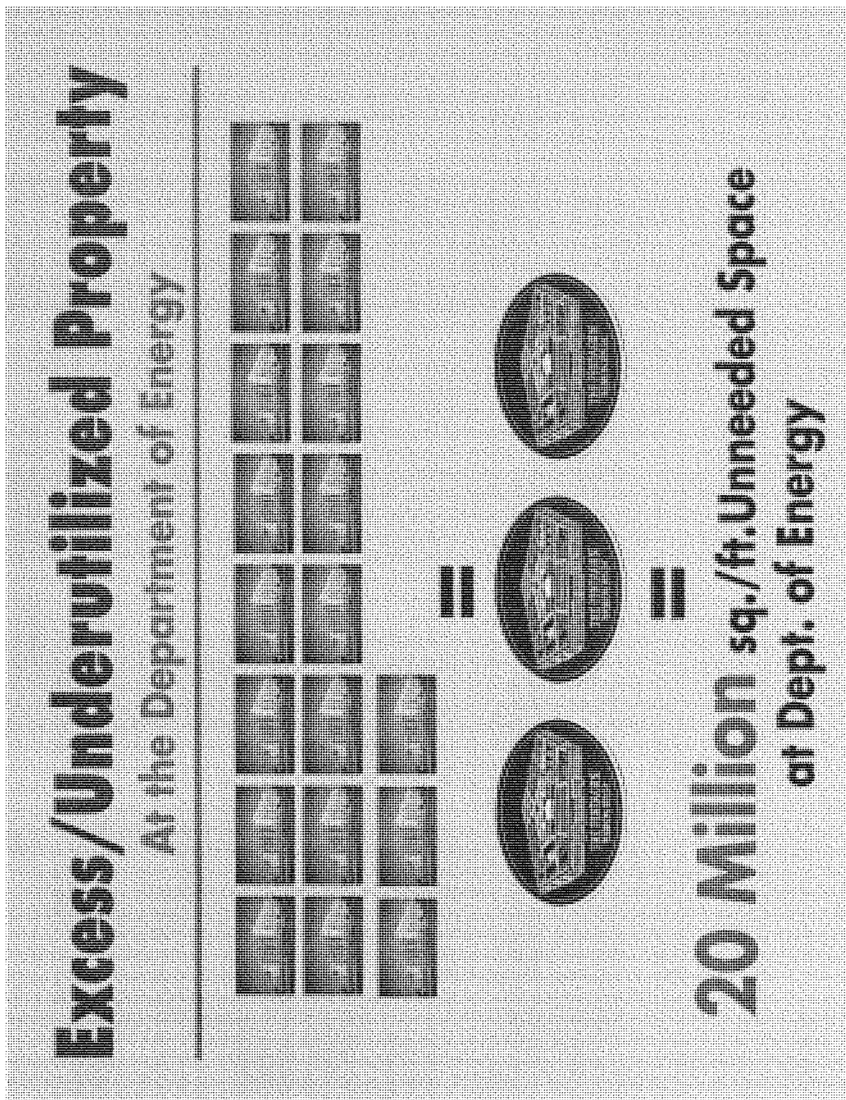
**INCREASING RELIANCE ON OPERATING LEASES**

GSA strives to find the optimal housing solution for our customer agencies whether it be leasing, new construction or repairs and alterations of an existing Federal building. GSA is using leasing more and more to fulfill its space needs for other Federal agencies. Since the mid-1960s, GSA-owned space has grown from 149 million square feet to 174 million square feet in fiscal year 2006, an increase of about 17 percent. During this same time period, space leased by GSA from the private sector has grown from 45 million square feet to 172 million square feet in fiscal year 2006, an increase of over 280 percent. By the end of fiscal year 2007, GSA will reach the point where we will have more leased space than Federally-owned space.

Leasing serves a useful purpose for the Government. For small or short-term requirements, leasing is generally the most flexible and lowest cost solution for the taxpayer. GSA has a large number of leased buildings because most of our requirements (over 70 percent) are less than 10,000 square feet and generally for short terms (5-10 years). These requirements are usually for relatively generic office space without many special features and they are widely geographically dispersed. For these transactions it is more advantageous to lease than to own.

GSA is concerned that we may be leasing some facilities that should be Government-owned, where there is a large, long-term customer requirement in a major metropolitan area with other Federal tenants that could be used for backfill. In some cases, leasing may be the only alternative if Federal construction cannot deliver the space in time to meet the requirement.

Mr. Chairman, Ranking Member Coburn, this concludes my statement. I would be pleased to respond to any questions you or the other members of the Subcommittee may wish to ask.


Excess/Underutilized Property
At the Department of Energy
=
=
20 Million sq./ft.Unneeded Space
at Dept. of Energy

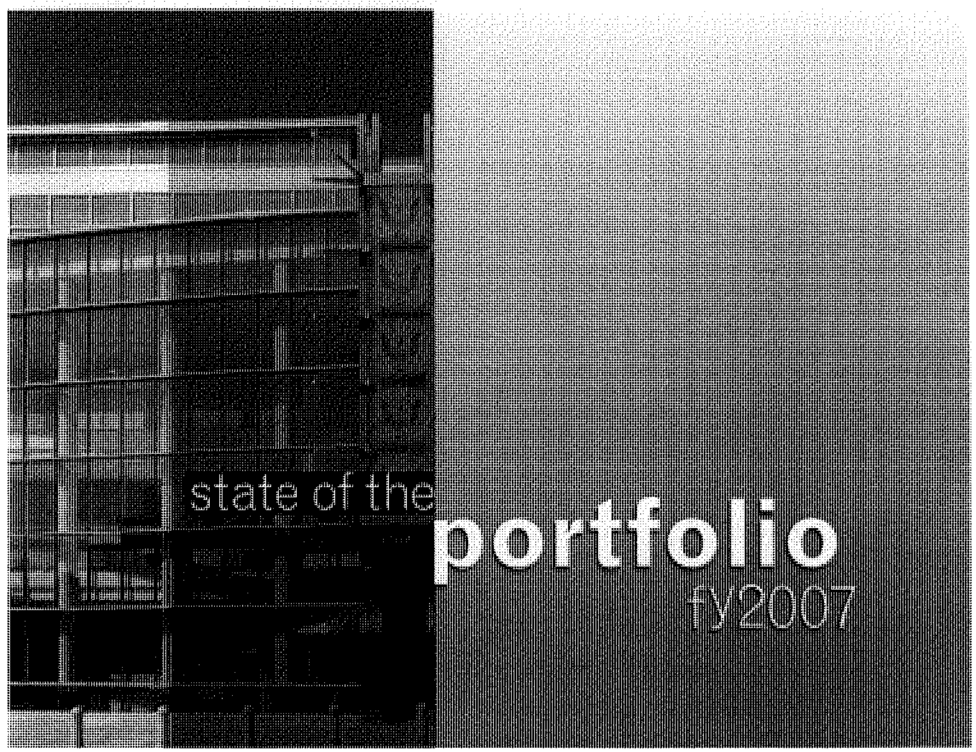
# Construction vs. Operating Leases

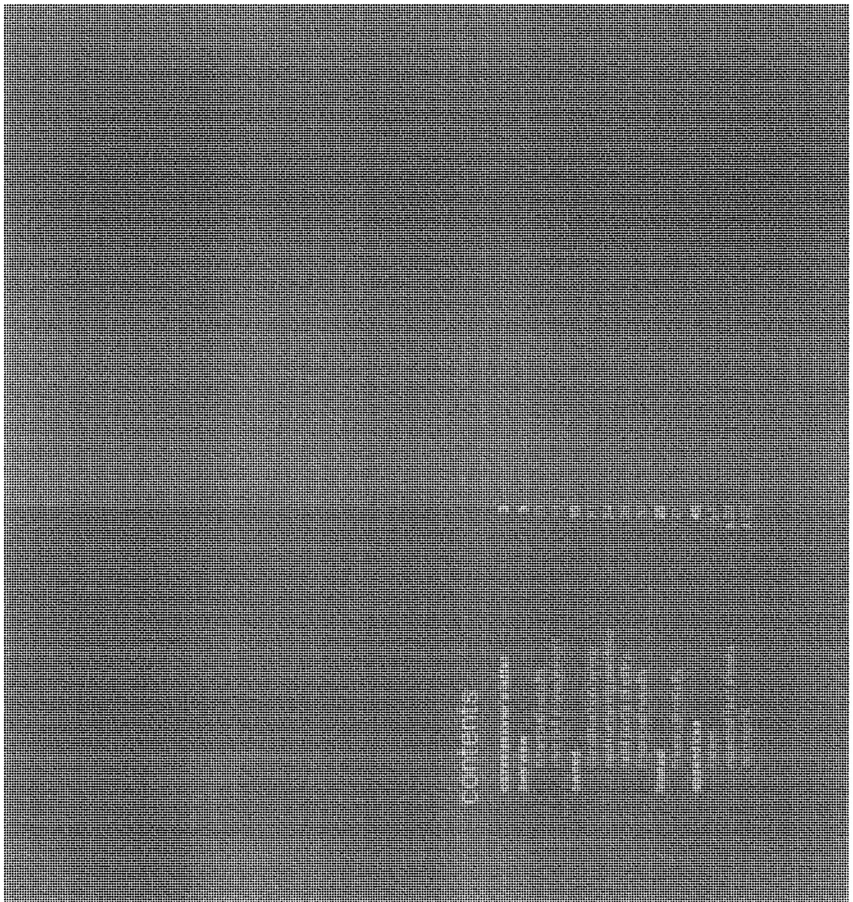
- In 1995, GAO reported that GSA had entered into 55 operating leases for long-term needs that were estimated to cost $700 million more than construction.
- In 1999, GAO reported that for nine major operating lease acquisitions GSA had proposed, construction would have been the least-cost option in eight cases and would have saved an estimated $126 million.
- The Patent and Trademark Office (Northern VA) entered into an operating lease that was estimated to be $48 million more than construction and $38 million more than lease-purchase.
- Department of Transportation headquarters reduced the term of a 20 year lease to a 15 year lease so that it could meet the definition of an operating lease. GSA's FY 1999 prospectus for constructing a new facility for this need showed the cost of construction was estimated to be $190 million less than an operating lease.

**Construction Would Have Saved Taxpayers Over $1 Billion**

GSA

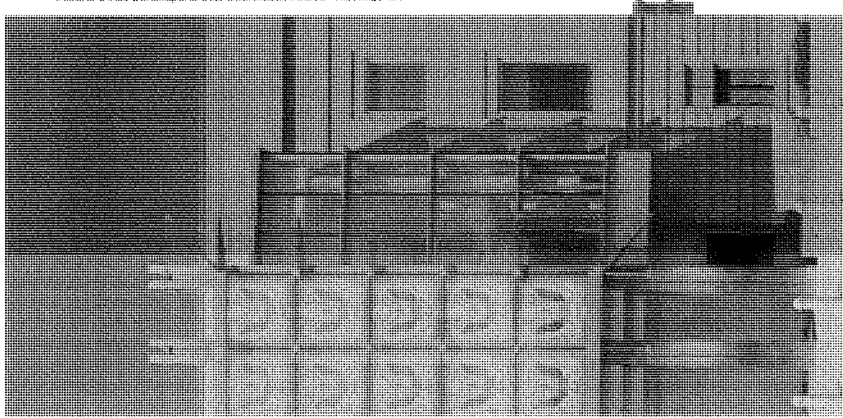
GSA Public Buildings Service

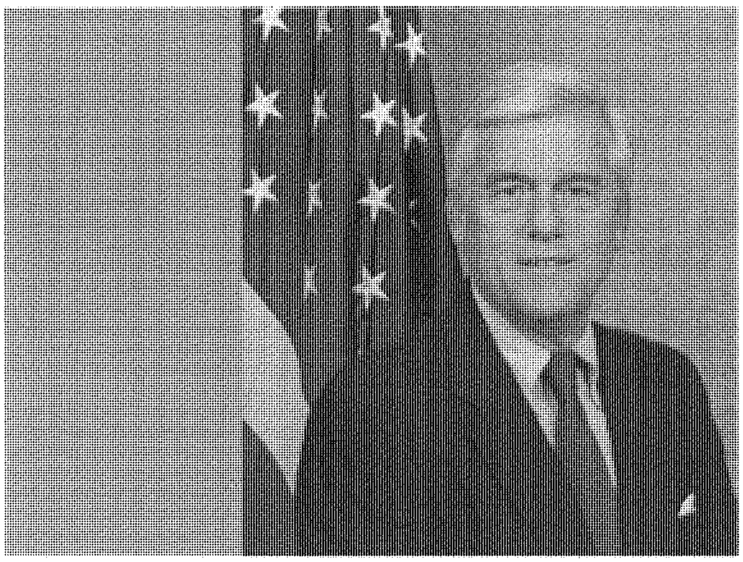




portfolio
fy2007

Federal Office Building and U.S. Courthouse Annex Wheeling, WV

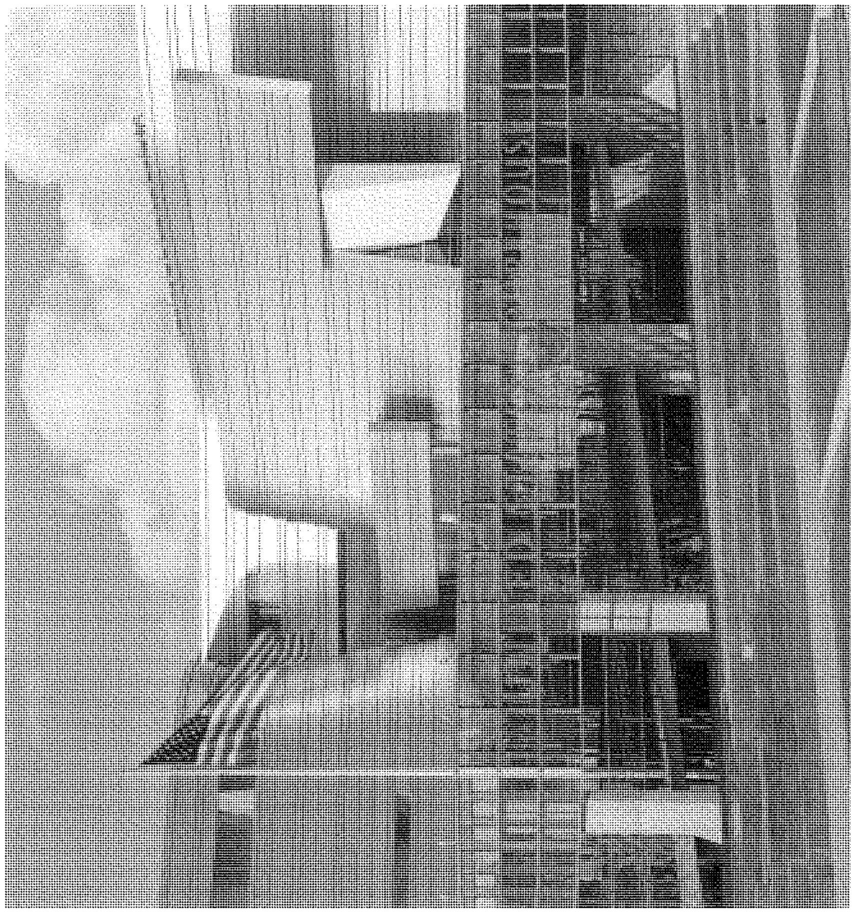


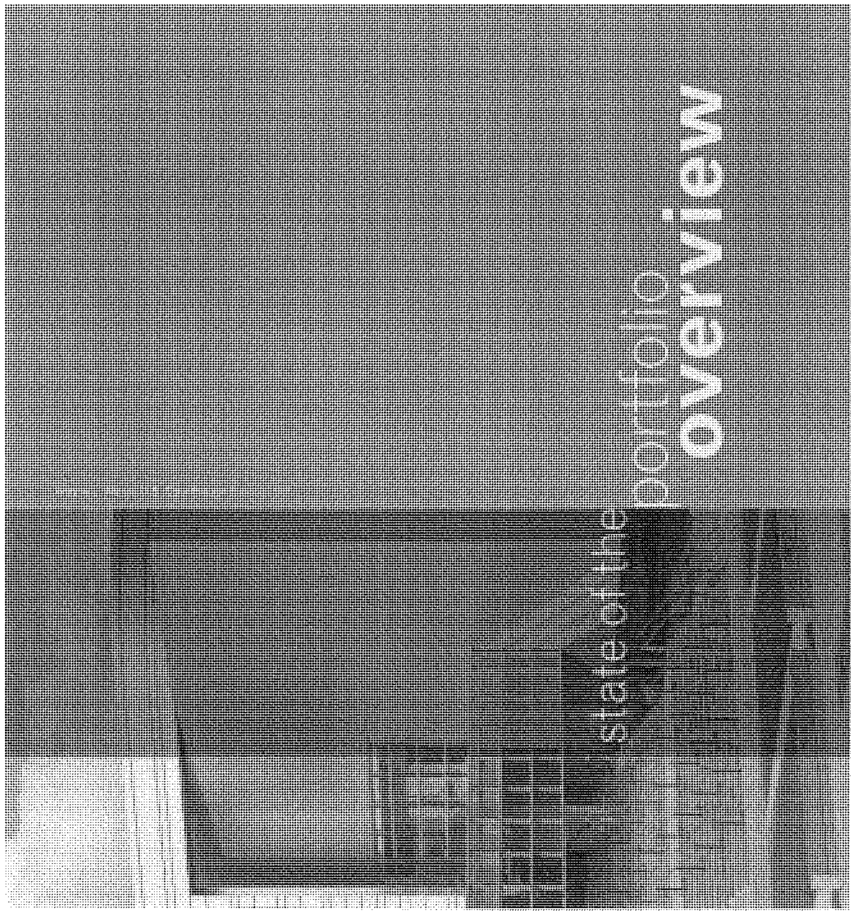


commissioner's message

# david winstead

commissioner's message 3




state of the portfolio
overview

# overview

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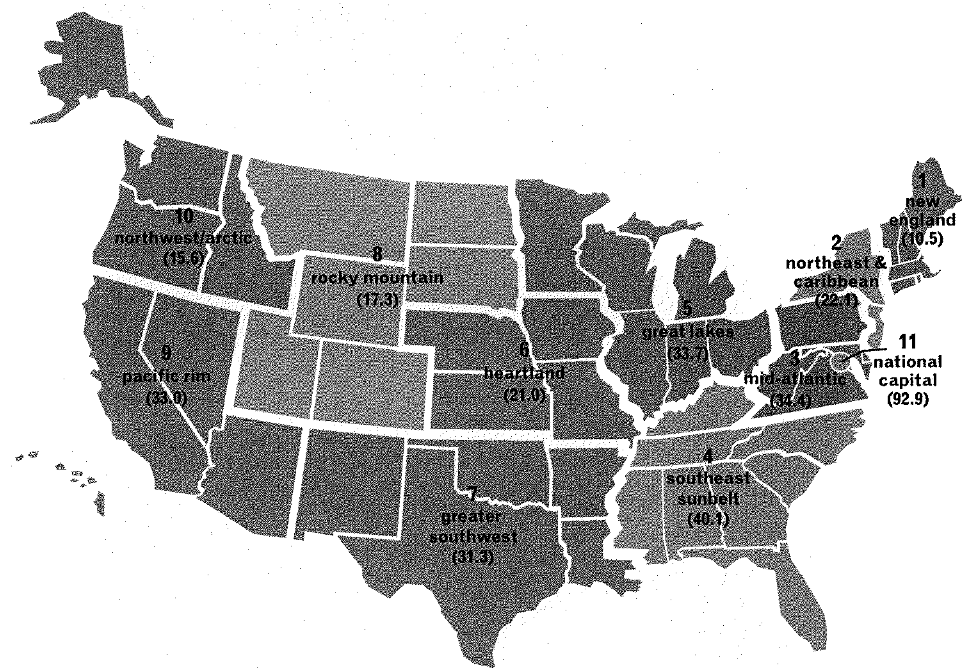
rentable square footage by region
*in millions (see table 1, page a.1)*



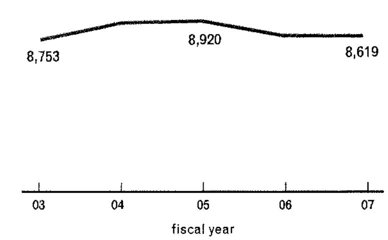

nationwide
(351.9)

The PBS mission is to provide superior workplaces for Federal customer agencies at good economies to the American taxpayers. To achieve this mission, PBS employs a portfolio strategy that is based on practices developed over six decades of owning, managing, leasing and developing real property. The size and diversity of our portfolio allows us to accommodate the changing space needs of our customers by soliciting local market expertise.

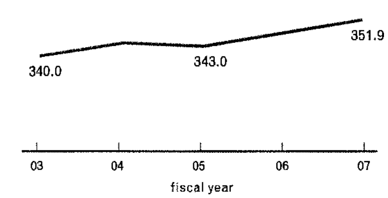
This year, GSA's number of assignable assets decreased due to PBS' continued efforts to right-size its portfolio. However, with the addition of 9 assets averaging over 390,000 square feet each and a few significant leases coming on line in FY2007, the space occupied in our portfolio continued to grow. The ability to leverage the size of our portfolio provides PBS a competitive advantage which allows us to pass on savings to our customers.

Since providing superior workplaces to our customers is the center of our business, we must focus on understanding customer agency space needs in order to provide the most effective real estate solutions. We have 21,260 space assignments, or Client Billing Records (CBRs), in our buildings. Each CBR represents a block of space occupied by a customer agency for which PBS charges a commercially-equivalent rental rate. By collecting rent, PBS is able to maintain a consistent source of funding to operate and maintain our assets, repair and refurbish our Federal facilities, and construct new buildings in support of customer agency missions. Our top 10 customers have remained relatively

number of assignable assets*




rentable square footage*
*in millions*



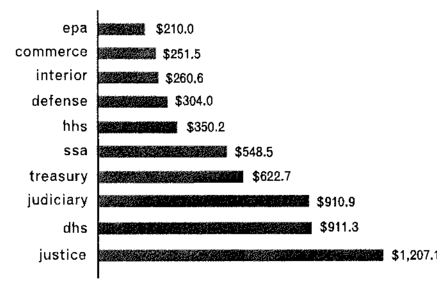

* *Source: September R240 report (2003-2007)*

constant and represent approximately 74 percent of the rent billed and 68 percent of rentable square feet. The chart to the right lists our largest customer agencies by annual rent. Generating over $1 billion of total annual rent, the Justice Department is our largest revenue producing tenant agency. In FY2007, the Department of Homeland Security (DHS) continued to increase its space holdings and surpass the Judiciary as the second largest revenue producing customer agency.

The PBS inventory is composed of federally-owned properties and properties leased from the private sector. Government-owned space has remained relatively stable over the last 40 years. In contrast, leased space has more than tripled during the same period, increasing from 46 million rsf in FY1967 to 175.5 million rsf in FY2007. Nationwide trends reveal that special use facilities, such as courthouses and land ports of entry, tend to remain in the government-owned inventory, while traditional office space is shifting toward leased space. If PBS continues to occupy space from the private sector as a result of budget constraints and lack of resources for modernization and new construction projects, the increasing trend toward leasing will continue. This year the amount of leased space almost surpassed our owned. There is less than a one million rsf difference between owned and leased space.

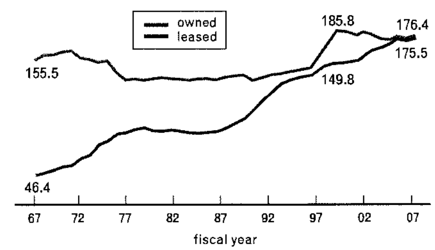
core customers – total annual rent

*$ in millions (see table 7, page a.8)*

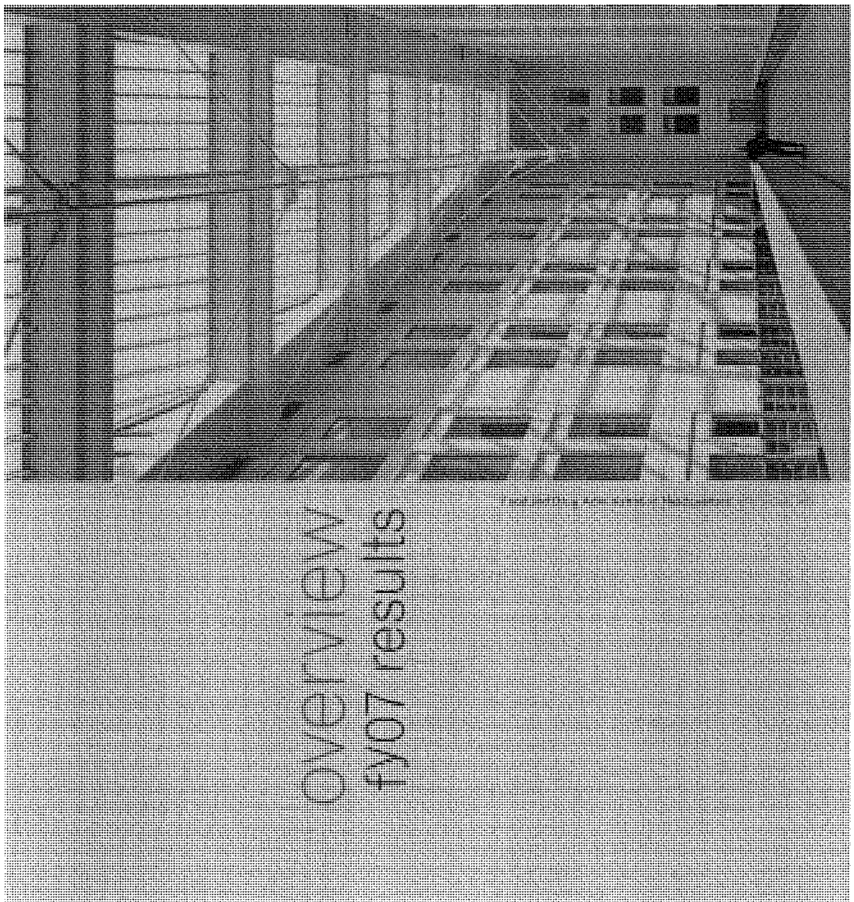



square footage trends*

*in millions*




**Source: September R240 report. GSA changed space measurement from occupiable to rentable square feet in 1997, which explains the large increase in owned space.*


overview
fy07 results

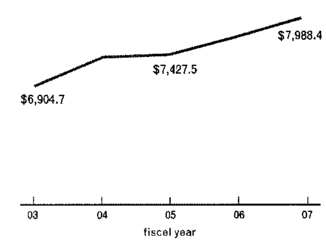
# financial results

Similar to private sector real estate organizations, PBS tracks a number of financial indicators. Measuring and analyzing: revenue, operating expenses, overhead, Return On Equity (ROE), Net Operating Income (NOI) and Funds From Operations (FFO) help to ensure that we operate efficiently and effectively. We compare these metrics to government and industry benchmarks and prior performance. Our primary indicator of financial performance is FFO. FFO is derived by calculating the amount of revenue remaining after deducting all direct and indirect expenses associated with operating owned and leased buildings.

In FY2007, direct revenue continued to increase driven by the growth of the leased inventory. However, due to delays in the delivery of major capital projects, PBS did not meet its revenue target for the year. As projected in FY2006, our expenses continued to outpace revenue. From FY2006-07, total funded expenses grew by 5.5 percent where as direct revenue only increased by 3.5 percent. This year's largest increases in costs were seen in our rental of space and operations and maintenance accounts. The increase in expenses coupled with not meeting our revenue target, led to a decrease in FFO. PBS will continue to focus its efforts on improving energy efficiency and creating measures to track revenue delivery and ensure operating costs are aligned with industry.

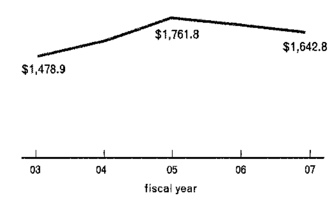
direct revenue

*$ in millions (see table 8, page a.9)*



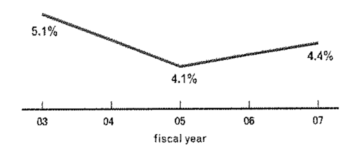

funds from operations (ffo)

*$ in millions (see table 8, page a.9)*

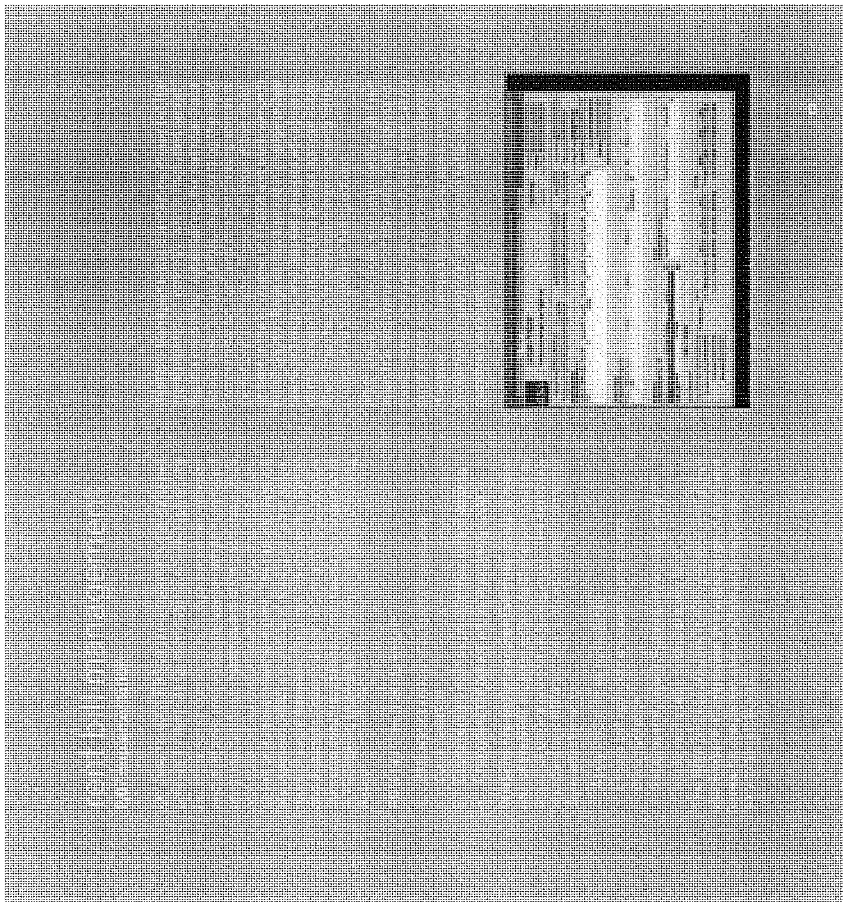


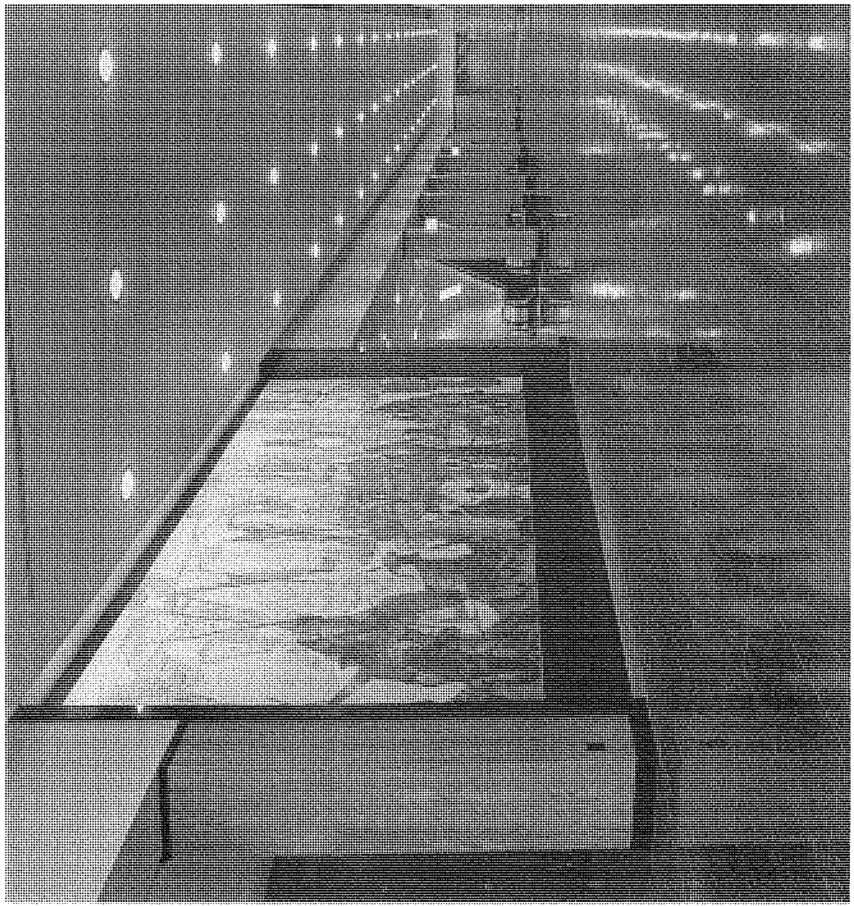
PBS tracks the amount of vacant space in its owned and leased inventory on a monthly basis. By emphasizing the importance of this measure internally and initiating our right-sizing program, PBS has created a strong incentive for all associates to focus on reducing vacant space. In FY2007, our overall vacancy rate increased to 4.4 percent, which still compares favorably to the private sector nationwide average of 12.5 percent. This increase is slight and is attributable primarily to project delays and delivery of major capital projects and the unexpected release of space by customer agencies.

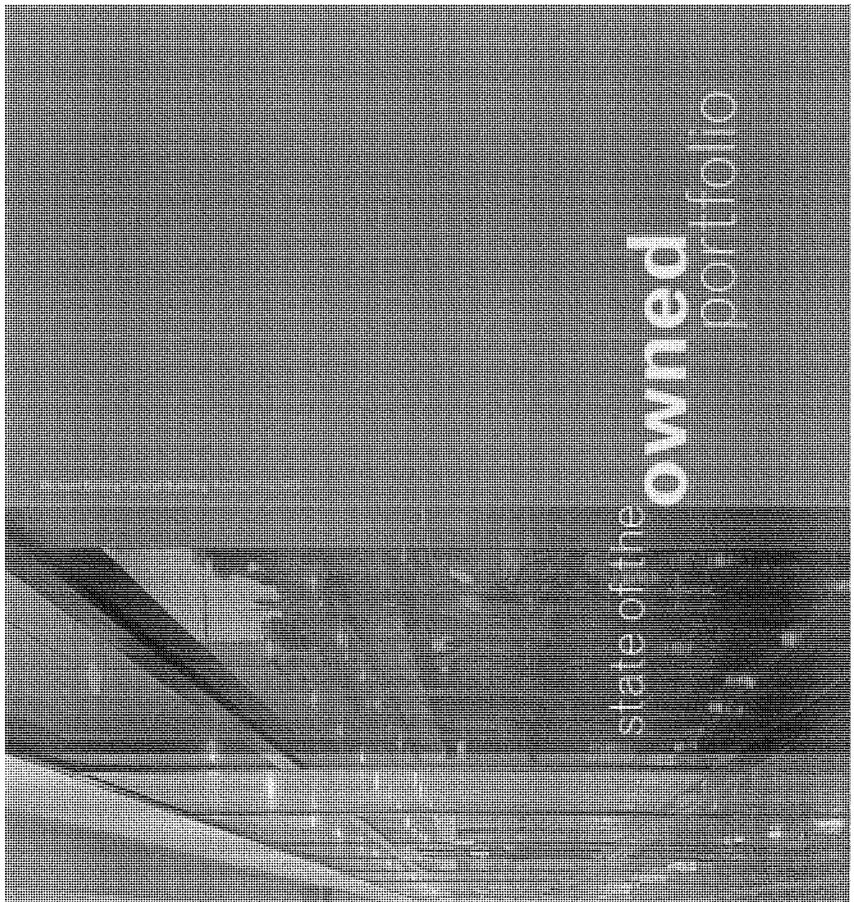
vacancy rates*
*% of rsf*




**Source: 9/03-9/07 Vacant Space Report*






state of the
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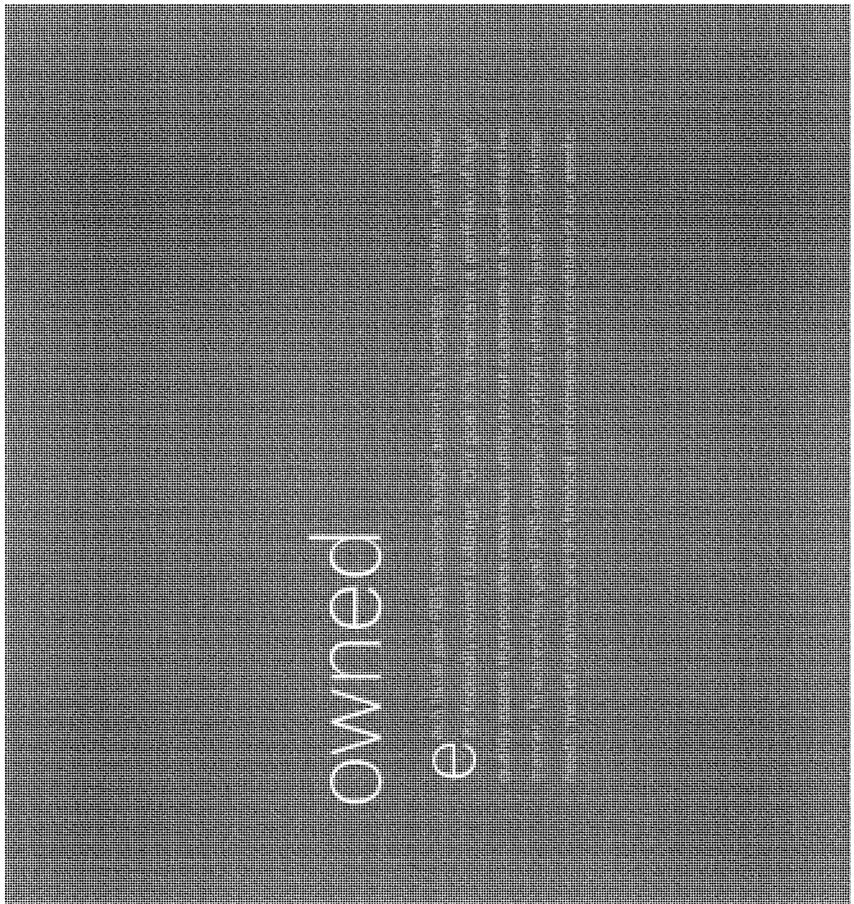
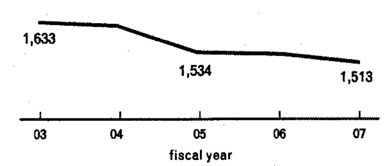

owned
e

The PBS owned inventory is made up of 1,513 buildings totaling 176.4 million rentable square feet of space. The slight decrease from FY2006 in the number of owned assets is a result of the continuous effort to right-size PBS' portfolio in order to meet our owner's objectives as established in GSA's Real Property Asset Management Plan. These objectives state that:

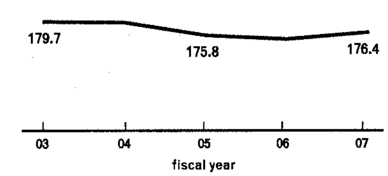
- Assets must support a current federal mission need
- Assets must be economically sustainable
- Assets must meet serviceability standards and customer needs
- Physical condition will be maintained to reflect market standards
- Target reinvestment to performing assets
- Asset level business plans and strategies must be updated annually

New construction accounted for nine assets. These included such additions as courthouses in Orlando, FL, Eugene, OR, Little Rock, AR; a new federal building in San Francisco, CA; and the Census Headquarters in Suitland, MD. Although the number of assets declined, these new assets in FY2007 led to an increase in the total amount of square footage contained within the PBS portfolio of owned properties.

**number of assignable assets***




**rentable square footage***
*in millions*

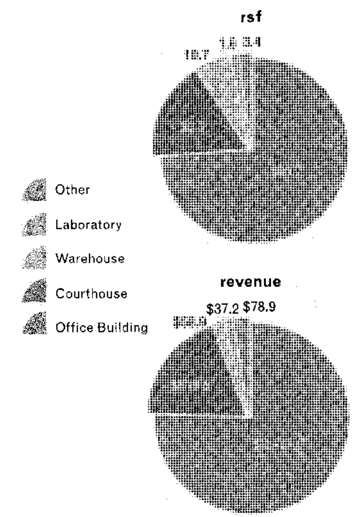



**Source: September R240 report (2003-2007)*

# property type segmentation

Office buildings and courthouses comprise over 90 percent of owned space and generate 95 percent of annual revenue. In FY2007, PBS continued to divest of obsolete warehouses thereby eliminating over 1 million rsf. The courthouse segment remained stable in square footage but experienced a decrease in revenue due to one-time billing adjustments and more stringent appraisal practices. The office building segment continued to increase in rsf and was the main driver in the increase of total direct revenue.

**rsf and revenue by property type**
*in millions (see table 11, page a.11)*

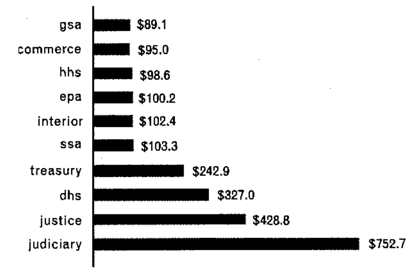


# customer segmentation

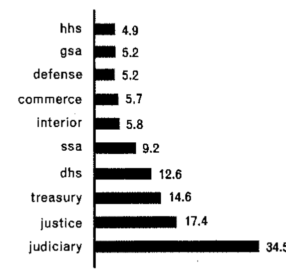
Customer segmentation reveals that the Judiciary branch continues to occupy the largest amount of federally-owned space which led them to generate the largest amount of revenue in federally-owned space in FY2007. Judiciary along with the Justice Department, DHS and Treasury Department occupy 45 percent of owned space and account for 57 percent of owned annual rent revenue.

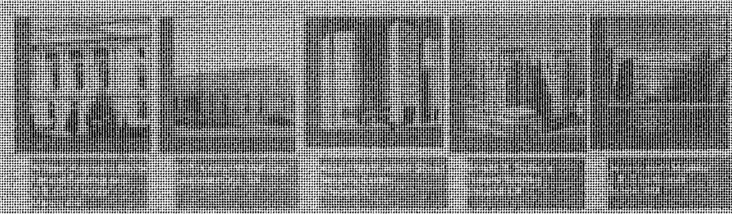
In FY2007, the construction of the Census Headquarters in Suitland, MD, allowed Commerce to increase their square footage holdings in the owned portfolio and make it one of the top ten customers for owned annual rent. On the other hand, most of the changes in the PBS portfolio of owned properties strongly reflect the budgetary constraints of our customer agencies. While some agencies have undergone major consolidations, others have experienced changing missions and needs, all of which can impact the size and composition of our portfolio. From FY2006-07, several of our top ten customers have slightly decreased their holdings in GSA government-owned space due to downsizing, opting to exercise their own real estate authority, or choosing to occupy leased space.

core customers – owned annual rent
*$ in millions (see table 14, page a.14)*




core customers – owned rsf
*in millions (see table 14, page a.14)*



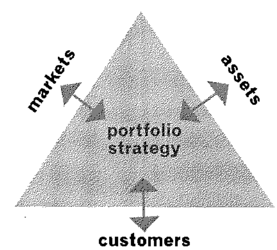


| | | | | | |
|---|---|---|---|---|---|
| rsf in millions | 46.5 | 6.6 | 81.1 | 11.8 | 29.0 |
| % of total rsf | 26.3% | 3.6% | 45.9% | 6.7% | 16.4% |
| assets | 334 | 80 | 640 | 179 | 585 |
| fy07 ffo in millions | $342.9 | $15.3 | $724.4 | $151.3 | $384.4 |
| ffo/rsf | $7.40 | $2.40 | $8.90 | $12.80 | $13.60 |
| vacancy rate | 12.1% | 14.6% | 9.9% | 4.8% | 2.4% |

*Source: # of assets and RSF from STAR 9/30/07, FFO from InfoWizard FBF07, Vacancy Rate from 9/07 Vacant Space Report*

# portfolio strategy

PBS employs a decision-making strategy for the owned inventory that includes an analysis of: customer need; market dynamics; and the financial performance and condition of our assets. The goal of this strategy is to maintain a robust portfolio of assets by investing in strong, income-producing properties that satisfy long-term customer needs, disposing of excess properties that no longer serve a predominantly Federal use, and maintaining a modest capital investment program. To achieve this goal, we partner with our customers to understand their mission, housing profile, security needs, and space trends to provide smarter solutions. We gather market data from research firms to ensure that our space is priced at or below market prices and to assist with own/lease decisions. Finally, we track financial performance measures, cumulative reinvestment needs, fair market value, and functional replacement value for each asset to develop strategies for every asset in the portfolio.




## customer needs and market dynamics

PBS examines customer need and the ever-changing dynamics of the real estate market to develop and implement a portfolio strategy that meets both short and long term planning initiatives. PBS develops customer portfolio strategies to gain an in-depth knowledge of each customers' mission, organization, and real estate needs. When developing these portfolio strategies, several components are considered including: agency budgetary constraints, move costs, space trends, security requirements, and changes in customer mission and demographics. We use these strategies interactively with our customers to provide workplace solutions that meet housing requirements and are cost effective for PBS and our customers.

PBS conducts market analyses to compare the overall cost of owning space with leasing comparable space in the market. We survey the real estate market to determine the type and cost of available space and whether the space meets customer requirements. We assess the value of our owned assets by appraising the fair market value and setting rental rates to market rates on a 5-year cycle. PBS' goal is to generate a sufficient return of 6 percent for any given investment. PBS also compares operating costs and physical condition to market benchmarks to ensure we are aligned with the private sector.

## financial performance and condition of our assets

To evaluate the financial performance and condition of each asset, PBS ranks its owned assets in a structured way much the same as the commercial real estate industry. This ranking (tiering) helps focus reinvestment funds on performing assets and identify non- or under-performing assets for work-out or disposal.

In simplest terms: Tier 1 assets are strong financial performers with low reinvestment needs; Tier 2a assets are strong financial performers with significant reinvestment needs; Tier 2b assets are under-performing financially and fail to return 6 percent on equity; Tier 3 assets are non-performing assets that fail to break even, which requires recovery of operating costs and basic reinvestment needs.

There are three test criteria and four tiers. The first test is a break-even analysis that compares an asset's revenue to its basic operating costs and a 2 percent requirement for reinvestment. If the revenue fails to cover these costs, the asset receives the lowest tier rating of 3. If an asset passes the first test, we determine whether it achieves a Return on Equity of 6 percent, GSA's hurdle rate. If it fails to return 6 percent on equity, it is a Tier 2b asset. Finally, the remaining assets are subjected to a third test based on accumulated reinvestment needs. If the cumulative reinvestment needs exceed 30 percent of the asset's value, it is a Tier 2a asset; if not, the asset receives the highest rating, Tier 1.

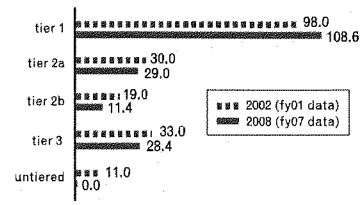
### tiering categories*

| | tier | conditions |
|---|---|---|
| performing | tier 1 | Solid financial performance; satisfies long-term customer needs. FCI<0.3 & ROE>6%; (NOI-2%FRV)>0 |
| | tier 2a | Good financial performance; large capital reinvestment required. FCI>0.3; ROE>6%; (NOI-2%FRV)>0 |
| under performing | tier 2b | Poor financial performance: ROE<6%; (NOI-2%FRV)>0 |
| non performing | tier 3 | Poor financial performance: assets w/negative cash flow. (NOI-2%FRV)<0 |
| untiered | | Not categorized into a tier. |

*Source: Asset Management Division, Office of Real Property Asset Management.*

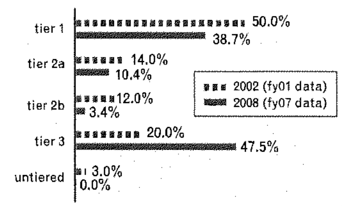
rsf by tier*

*in millions*




capital reinvestment by tier (BA54/55)*

*% of assets*




**Source: Asset Management Division, Office of Real Property Asset Management*

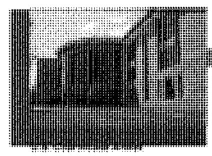
Since PBS began tiering its owned inventory in FY2002, we have added over 10 million rsf to our Tier 1 inventory while reducing Tier 2b and Tier 3 space by 12 million rsf. While several large assets dropped to Tier 2a, resulting in a decrease in the amount of Tier 1 square footage in FY2007, the total number of Tier 1 assets has increased 11 percent over the last 6 years. PBS has successfully used tiering results to target reinvestment funds to its core assets. By FY2007, Tier 1 accounted for 75 percent of total FFO and 39 percent of our reinvestment dollars were spent on Tier 1 assets.

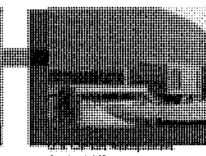
With significant calls on capital for the construction national priorities such as new land ports of entry, courthouses, FBI field offices and the DHS Headquarters consolidation, PBS will be challenged in the coming years to also fund reinvestment projects in the Tier 2a assets. Many of these assets are fully occupied, financially strong performers, with a long term Federal need. Where the scope and cost of needed reinvestment cannot be justified by the market rent a building can produce, it may be better to move customers to leased space than to continue to wait for reinvestment that may not be economic.

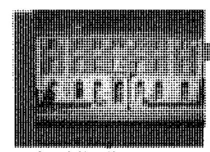
# restructuring the portfolio

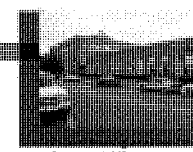
In FY2002, PBS began a five-year restructuring initiative to create a self-supporting portfolio that generates enough revenue to recover operating costs and fund reinvestment requirements. To achieve this goal, PBS reported an excess of 271 assets that were no longer viable. Reducing excess properties and poorly performing assets improves our ability to fund the reinvestment requirements of the remaining assets that are the core of the PBS portfolio. By achieving a cost avoidance of more than $611.9 million, PBS was able to focus available resources to complete major renovations in 90 assets and construct 34 new buildings. In FY2005, PBS secured the long sought authority to retain proceeds from excess assets that are sold. Over the last three fiscal years, PBS has retained over $139 million in proceeds from sales.

The restructuring effort was finalized at the end of FY2007. Going forward, PBS will continue to right-size its portfolio by maintaining its strong asset management practices. The following charts map the yearly results since the inception of restructuring initiative.

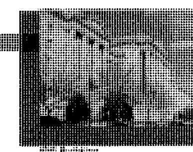

Little Rock, AR


Suitland, MD


Coeur D'Alene, ID


Greenwood, MS


Fargo, ND


Washington, DC

## new

| | fy02 | fy03 | fy04 | fy05 | fy06 | fy07 | total |
|---|---|---|---|---|---|---|---|
| # of bldgs. | 7 | 2 | 8 | 3 | 5 | 9 | |
| rsf *in millions* | 1.8 | 0.4 | 1.3 | 0.6 | 1.2 | 5.9 | 11.3 |
| cost *in millions* | $483.6 | $163.9 | $496.9 | $110.9 | $860.9 | $1,983.6 | $4,099.7 |

## reported excess

| | fy02 | fy03 | fy04 | fy05 | fy06 | fy07 | total |
|---|---|---|---|---|---|---|---|
| # of bldgs. | 94 | 48 | 35 | 26 | 55 | 13 | [illegible] |
| rsf *in millions* | 5.8 | 1.4 | 2.0 | 2.4 | 2.2 | 0.3 | [illegible] |
| liability avoided *in millions* | $171.4 | $75.9 | $8.8 | $184.3 | $147.5 | $24.0 | [illegible] |
| $ proceeds *in millions* | n/a | n/a | n/a | $5.3 | $51.9 | $82.2 | [illegible] |

## major r&a

| | fy02 | fy03 | fy04 | fy05 | fy06 | fy07 | total |
|---|---|---|---|---|---|---|---|
| # of projects | 12 | 6 | 15 | 26 | 11 | 20 | 90 |
| rsf *in millions* | 3.8 | 2.7 | 2.4 | 7.1 | 2.1 | 6.8 | 24.8 |
| cost *in millions* | $343.1 | $198.0 | $197.3 | $375.3 | $422.8 | $534.4 | $2,070.8 |

**Source: Asset Management Division, Office of Real Property Management*

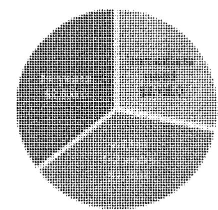
# core assets

Even with the success of the restructuring initiative, the reinvestment needs of the owned inventory continue to outpace the available reinvestment funding. Every two years, PBS assesses reinvestment needs by performing Physical Condition Surveys (PCS). These surveys are performed by a team of GSA associates, including both the asset and property manager, who physically inspect the building to assess current conditions and repair needs of major building components and systems. The surveys consist of a series of questions to better assess the reinvestment liability of our portfolio. The data in the PCS represents the value of repair or replacement of shell/infrastructure needs of the asset. The survey results provide an aggregate dollar value of deficiencies for each building that are prioritized and segmented into categories including: immediate need, within 1-2 years, 3-5 years, 6-10 years. In FY2007, the total reinvestment need as assessed in the surveys is $7.4 billion. Of the $7.4 billion, approximately $4.8 billion is needed to meet the Federal Real Property Council (FRPC) standards for facility condition index (FCI). However, our available funding for these investments is less than $1 billion per year.

In response to the shortage of reinvestment capital, PBS began the core asset initiative in FY2005. Core assets are assets that will remain in our inventory for at least 15 years, have a solid customer base and sustainable reinvestment needs in a stable

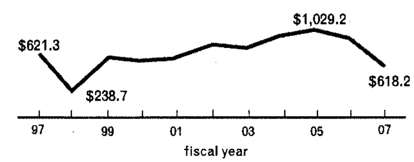
**reinvestment needs***

*$ in millions*



**available reinvestment funding (BA54/BA55)****

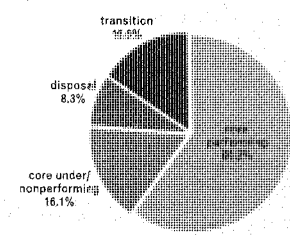
*$ in millions*




* *Source: Physical Condition Survey (PCS)*
** *Source: Office of PBS Chief Financial Officer (PF)*

real estate market. The core asset initiative was designed to forecast the composition of the PBS portfolio in 5 to 15 years by identifying the holding period for each asset. FY2007 marks the second year that PBS surveyed regional portfolio managers to determine long-term asset strategies and our core assets. There are two classes of core assets, performing and non-performing. An asset with consistently positive financial performance is classified as performing. These assets will receive priority for reinvestment before non-performing assets. Assets with a holding period less than 15 years fall into two categories, transition or disposal. Transition assets typically have 5-15 year holding periods, because the market rental rates, and/or customer need is driving relocation to a new Federal building or a leased space. PBS will fund projects in transition assets that meet basic needs, but will avoid any major reinvestment. Assets fall into the disposal category if PBS plans to dispose of them within 5 years. These assets typically receive no reinvestment other than what is necessary to maintain day-to-day operations. The nationwide results of this initial analysis are following.

fy07 owned core assets*
*% of assets*

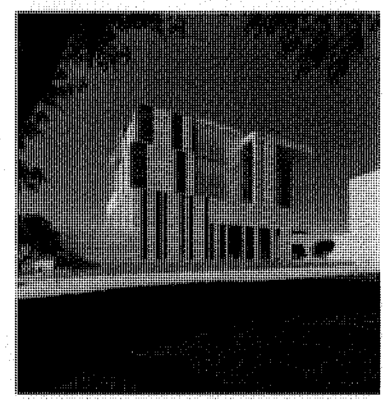



*Source: *Asset Business Plan (ABP)*

## looking ahead

In FY2008, regional leadership will be asked to develop and present regional asset strategies for acquisition, reinvestment and disposal setting holding periods for every asset in the portfolio. These strategies developed through the core asset right-sizing initiative will then be the foundation for:

- A 5-year portfolio wide capital investment plan
- A list of locations where reinvestment might come through different real property authorities
- A disposal projection for FY2009 and beyond



(Future) U.S. Courthouse, Austin, TX

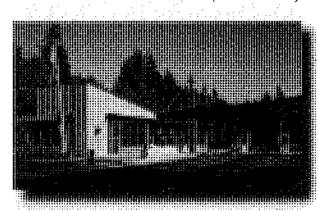
# **land ports** of entry

The U.S. Customs and Border Protection (CBP) is responsible for processing millions of travelers and inspecting billions of dollars in commercial goods into the United States every year through 163 land port of entry inspection facilities that span 6,900 miles of border with Canada and Mexico. From 1995 to 2007, annual pedestrian crossings at U.S. borders grew 76 percent while annual vehicular crossings increased 30 percent. These increases in volume, under much stricter security provisions since September 11, 2001, are being pushed through land port of entry facilities—many built decades ago—that were not designed to meet the increased populations and trade that crosses U.S. borders today.

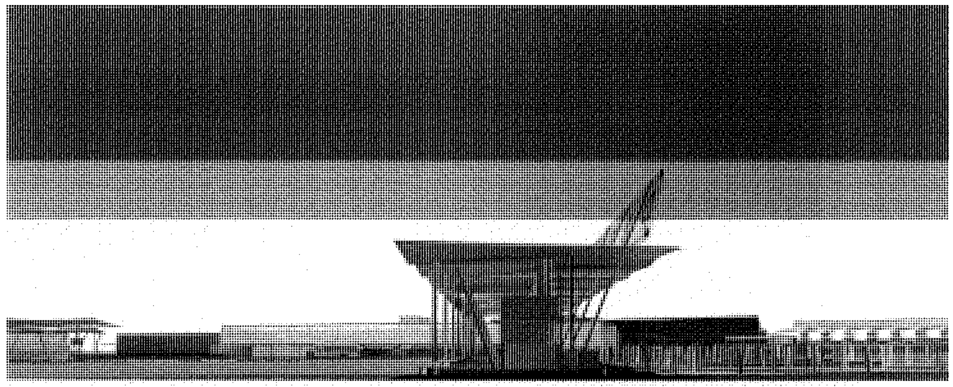
The success of CBP's mission depends heavily on the strength and effectiveness of its physical infrastructure—the inspection facilities—that supports its operations.

GSA, as the government's real estate expert, constructs and operates most land port of entry facilities on behalf of CBP. GSA is responsible for almost 10 million square feet of CBP space and receives over $300 million in revenue each year for this work.

To respond to the growing demands placed upon all land ports of entry, GSA and CBP are launching a capital improvement program in excess of $4.9 billion that will provide facility upgrades, expansions, and new facilities where needed. This significant construction program will bring CBP's facilities in line with the future demands that face all land ports of entry.



Top: Land Port of Entry, Calais, ME
**Bottom: Land Port of Entry, Point Roberts, WA**

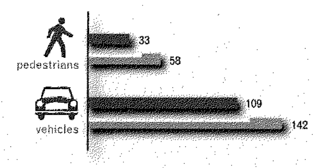


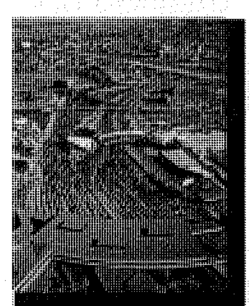
Land Port of Entry, Champlain, NY

The environment in which CBP operates is in constant change. As immigration patterns shift, security and technology requirements increase, traffic volume swells, and as legislative requirements are enacted, there is need for space that can adapt to and accommodate these changes. GSA is prepared to ensure CBP's mission is enabled by the facilities in which they operate.

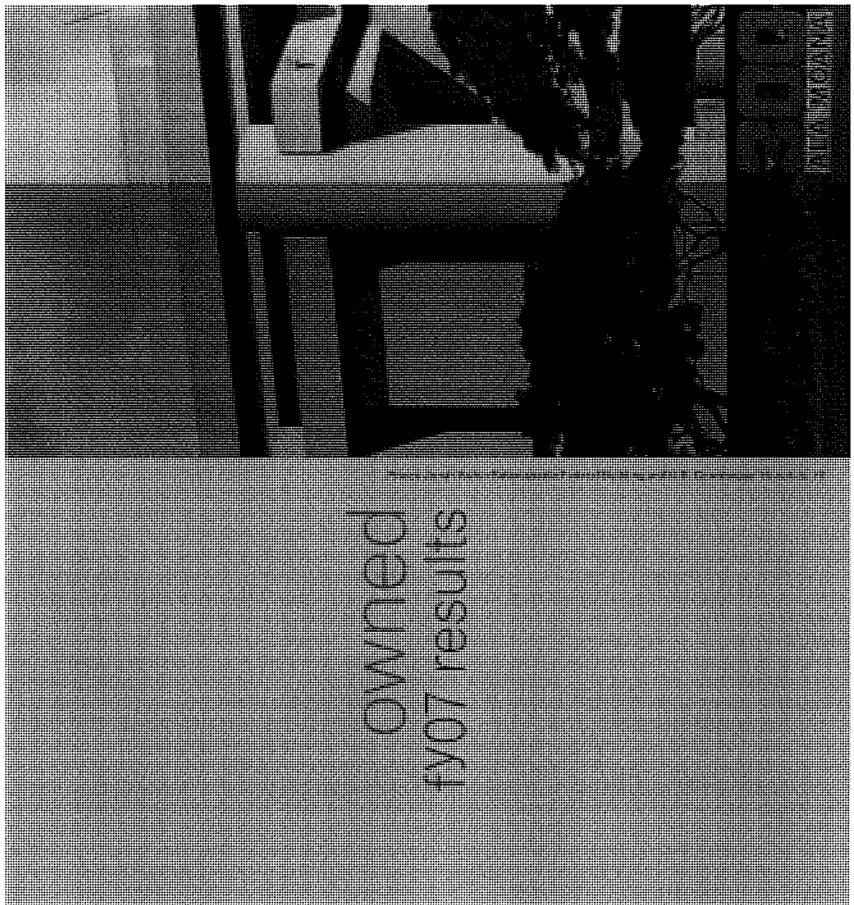
growth in border crossing volumes: 1995-2007

*in millions*



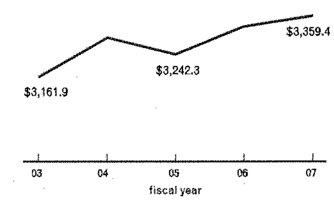
Aerial view of San Ysidro Border Crossing, San Ysidro, CA


owned
fy07 results

# financial results

Direct revenue increased in FY2007 by $24 million. On the other hand, Funds From Operations (FFO) remained steady, experiencing only a one million dollar decrease for a FY2007 total of $1,644. This decrease in FFO is attributable to the late delivery of a few major capital projects, increases in operating expenses, an increase in the vacancy rate in FY2007 to 7.7% of the owned portfolio and one-time rent credits processed in FY2007.

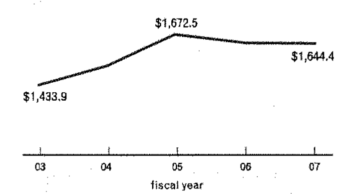
direct revenue
*$ in millions (see table 15, page a.15)*




vacancy rates*
*% of rsf*


*Source: 9/03-9/07 Vacant Space Report*

funds from operations (ffo)
*$ in millions (see table 15, page a.15)*

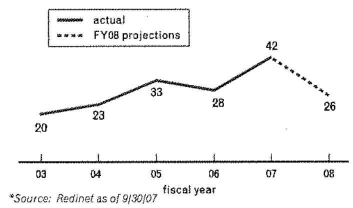


# disposal results

As part of PBS' commitment to provide comfortable and productive workplaces for our customers, we invested significant resources in FY2007 to maintain the quality of our Federal buildings. However, there are instances when certain properties in our inventory are no longer a compelling strategic fit for PBS or our customers. In FY2007, 13 assets were reported excess, bringing the total since the inception of portfolio restructuring in FY2002 to 271 assets.

In FY2005, PBS was granted the authority to retain the sales proceeds from property disposals. Since this time, over $139 million has been returned to the Federal Buildings Fund (FBF) from the sale of PBS properties. In FY2007 alone, PBS disposed of 42 assets returning $82.2 million to the FBF. Not only does PBS realize the financial benefit of disposing these properties that no longer serve the strategic needs of the Federal Government, but the future reinvestment liability of each of these properties is also avoided.

disposals*

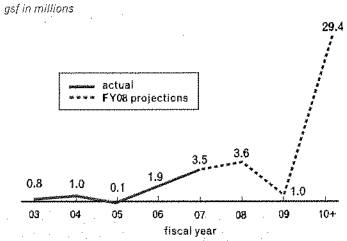



*Source: Redinet as of 9/30/07

# new inventory results

PBS has continued the tradition of bringing state-of-the-art facilities incorporating energy efficiency and sustainable design into the inventory. In FY2007, PBS completed two new courthouses, a courthouse annex, a land port of entry, ATF and Census Headquarters buildings, a new Federal Building, one laboratory, and one shared use facility totaling 3.5 million gross square feet (gsf). In addition, we expect to complete 6 projects totaling 3.6 million gsf in FY2008 and 30.4 million gsf in FY2009 and beyond. Since FY2002, PBS has constructed 34 assets, totaling 11.3 million rsf.

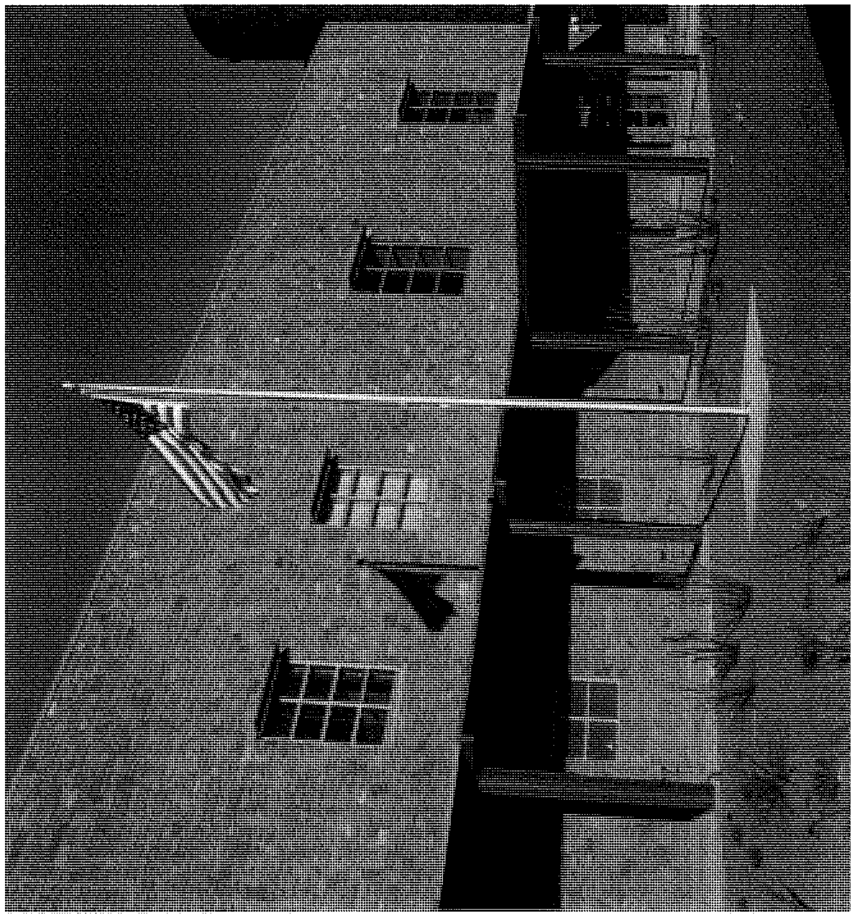
owned new inventory*
*gsf in millions*

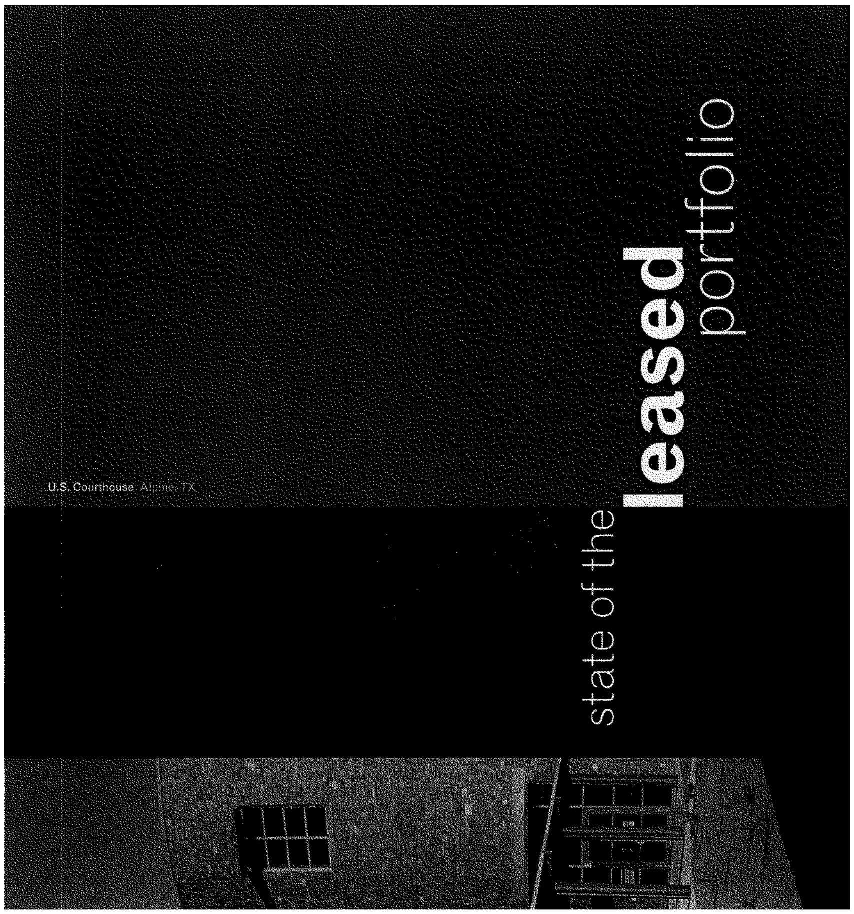



new construction fy07*

| region | building | city, state | gross square footage (gsf)* |
|---|---|---|---|
| 4 | Federal Building and U.S. Courthouse | Orlando, FL | 474,551 |
| 5 | U.S. Customs Cargo Inspection Facility | Detroit, MI | 27,276 |
| 7 | U.S. Post Office and Courthouse Annex | Little Rock, AR | 254,912 |
| 9 | San Francisco Federal Building | San Francisco, CA | 652,433 |
| 10 | Wayne L. Morse U.S. Courthouse | Eugene, OR | 308,914 |
| 11 | FDA / Central Shared Use 1 | White Oak, MD | 115,570 |
| 11 | FDA / CDRH Lab | White Oak, MD | 134,036 |
| 11 | U.S. Census Bureau Headquarters | Suitland, MD | 1,205,685 |
| 11 | ATF Headquarters Building | Washington, DC | 361,656 |

*Source: Office of the Chief Architect/PIP*




state of the
leased
portfolio
U.S. Courthouse Alpine, TX

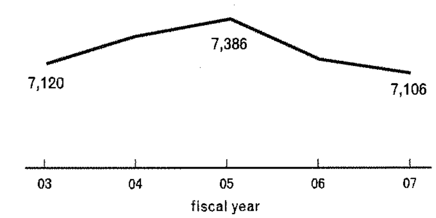
# leased

The leasing program is an alternative when no federally-owned space is available and construction is not a viable option. Leasing from the private sector offers PBS the flexibility to meet our customers' space requirements in situations where space needs are urgent and unexpected. The goal of the leasing program is to meet the needs of our customers at or below market prices while maintaining low vacancy rates. As our lease portfolio grows, PBS continues to take proactive approaches to manage our leased portfolio.

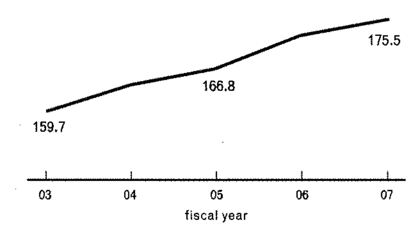
PBS' space acquisitions are driven by customer agency requirements. When a requirement is received, PBS determines the most favorable acquisition method by determining the amount of space needed, how quickly and for how long the space is needed, and the complexity of the necessary build-out. PBS first looks to use existing federally-owned space and then to vacant leased space already under contract from the private sector. If there are no suitable locations and if Federal construction is not feasible, PBS can lease new space from the private sector. Leases are an attractive option for many agencies because they can provide flexibility in space acquisition and can accommodate short-term requirements.

While the number of leased assets declined slightly in FY2007, the rentable square footage continued increasing to 175.5 million. This increase was driven by large leases by our customer agencies such as the Department of Transportation Headquarters lease in Washington, DC, which added 1.35 million rentable square feet. However, despite the addition of a few large leases in FY2007, leases under 20,000 rsf represent 79 percent of the leased inventory, creating a significant workload for realty specialists. With budget constraints projected to continue we can expect to see continued growth in the leased portfolio.

number of assignable assets*




rentable square footage*
*in millions*




*Source: September R240 report (2003-2007)*

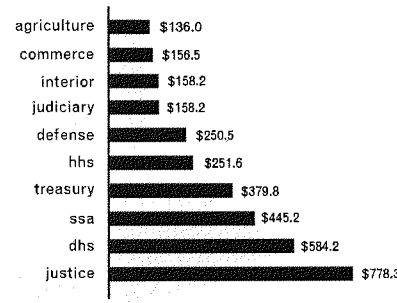
# customer segmentation

As a fiduciary agent, it is incumbent on PBS to work with customer agencies to develop strategies and approaches that leverage limited Federal resources yet develop and deliver quality workplace solutions. The Justice Department, Department of Homeland Security, Social Security Administration, and the Treasury Department continue to be our largest tenants in leased space. These top four agencies occupy over 81 million rsf or 47 percent of leased space, and generate 49 percent of leased rent revenue. The top ten core customers listed in the graph to the right occupy over 127 million square feet representing 73 percent of the leased rsf and generating 74 percent of leased rent revenue.

In recent years, the Federal Bureau of Investigation (FBI) has expanded its mission to include intelligence gathering. GSA is delivering specialized field office facilities across the country to consolidate FBI elements, help FBI carry out necessary functions, and provide space for additional personnel. In times when funding for Federal construction is not available, these facilities are delivered through the lease construction program. This change in the FBI's need for leased space has led to the increase in Justice's leased rsf and annual rent.

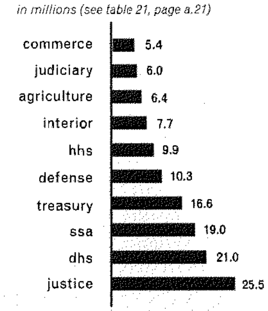
core customers – leased annual rent

*$ in millions (see table 21, page a.21)*




core customers – leased rsf

*in millions (see table 21, page a.21)*



# portfolio strategy

PBS manages the leased portfolio by focusing on four primary areas: reducing vacancy; managing lease administration; managing customer requirements; and analyzing market trends. Reducing vacancy ensures that taxpayer money is spent effectively. For the first time in four years, the vacancy rate dropped to 1.1 percent. Exercising termination rights, backfilling vacant space and buying out lease contracts ensure efficient utilization of leased space.

Lease administration focuses on how well PBS administers and monitors contract costs and obligations. This includes accurate billing and processing of taxes, stepped rents, and operating cost escalations. On a quarterly basis, PBS generates a lease report which identifies leased locations where the direct expenses and field office overhead exceed the income generated by the asset.

Managing customer requirements is essential in our commitment to helping agencies formulate more accurate space plans and reduce costs. Before a lease expires, PBS contacts our customer agencies to discuss their future space requirements. In situations where our customers are uncertain about their future space needs, many agencies request lease extensions. However, lease extensions limit PBS' ability to respond appropriately to market conditions by negotiating a new contract. Lease extensions from previous years push lease expiration dates into the next fiscal year, generating a heavy workload for realty specialists and making it difficult to prioritize the expiring lease workload.

In FY2007, PBS began an expanded analysis of lease extensions and, as of FY2008, will capture the driving forces behind each lease extension using reasons cited most commonly by the regions. This information will be used to develop best practices and/or strategies to share with the regions and provide guidance to realty specialists and customers on the initiatives and changes necessary to reduce lease extensions.

### lease extensions

*(see table 25, page a.25)*

| fy04 | fy05 | fy06 | fy07* |
|---|---|---|---|
| 68.0% | 63.0% | 65.0% | 75.2% |

**NOTE: In FY07, leases whose expiration had been extended but not classified in STAR as such were still considered extended for this analysis*

# analyzing market trends

## lease market analysis

In performing lease market analyses, PBS has developed an analytical "lease tiering" tool that aids in developing strategies for GSA's leased portfolio. The tool incorporates a comprehensive analysis of current market data and a forecast of future growth in rental rates in major metropolitan areas. It provides market intelligence that can be used when negotiating lease contracts.

## value and market risk

PBS provides value to the customer by negotiating rates competitive with market benchmarks. The information contained in the lease allows PBS to take into consideration all components of the rent rate, including base rent, operating expenses and custom and general tenant improvements.

In the lease tiering analysis, risk is a product of the growth rates in rent for a particular market. In order to assess risk, the projected rental growth rates for markets nationwide, are segmented into four categories related to varying degrees of market risk: excessive, high, moderate and flat. If the data suggests significant price increases or decreases when current leases are set to expire, PBS can evaluate the risk and react appropriately.

## strategy

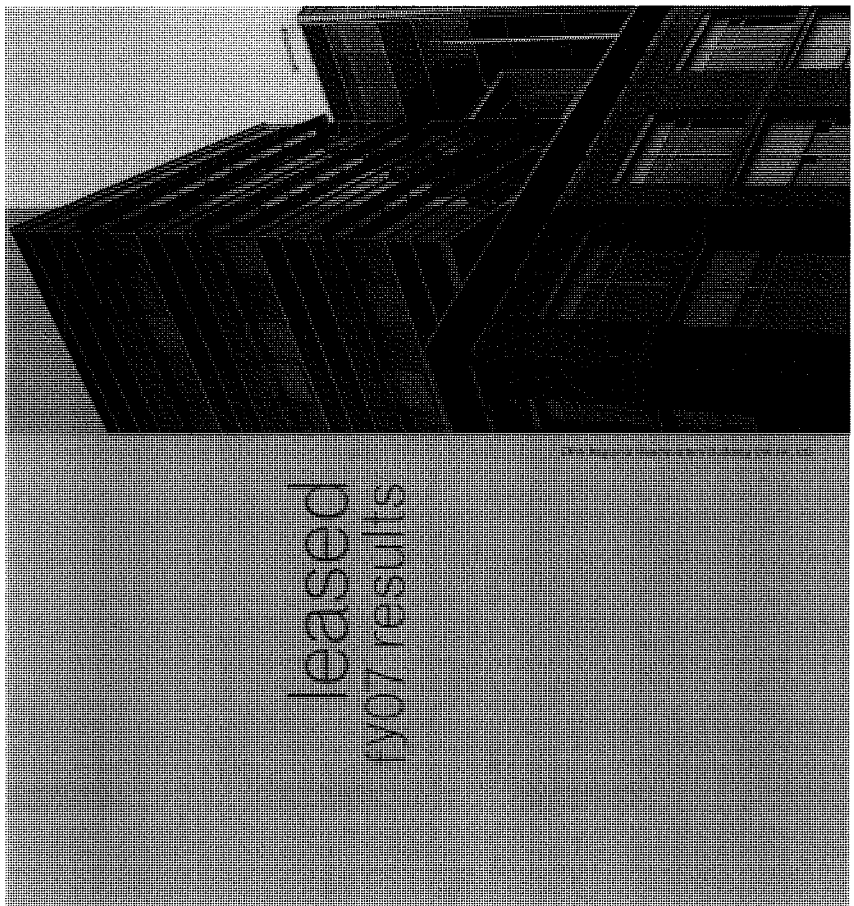
In 2007, PBS expanded lease tiering to include urgency levels based on the Occupancy Agreement (OA) expiration date. OA's expiring within 12 months are identified as 'Immediate'; within 13-24 months, 'Short Term'; within 25-36 months, 'Lead-time'; and more than 36 months, 'Planning'.

By cross-referencing the levels of urgency with forecasted rent growth rates, PBS can prioritize workload according to lease expiration and market risk. This strategy allows PBS to provide portfolio guidance to customer agencies based on achieving savings over the real estate cycles of all its markets.

### fy07 lease tiering results*

| | urgency | immediate | | short-term | | lead-time | | planning | |
|---|---|---|---|---|---|---|---|---|---|
| | | OAs | rsf *in millions* | OAs | rsf *in millions* | OAs | rsf *in millions* | OAs | rsf *in millions* |
| 5-year growth | excessive | 96 | 1.5 | 29 | 0.4 | 42 | 0.6 | 221 | 4.6 |
| | high | 276 | 3.4 | 148 | 2.6 | 131 | 1.7 | 865 | 12.3 |
| | moderate | 261 | 4.0 | 133 | 2.9 | 138 | 3.9 | 650 | 18.8 |
| | flat | 302 | 7.6 | 141 | 4.4 | 96 | 4.0 | 542 | 24.1 |
| | no market data | 1,252 | 7.7 | 947 | 5.3 | 554 | 4.0 | 3,269 | 36.2 |
| | **total** | **2,187** | **24.3** | **1,398** | **15.6** | **961** | **14.1** | **5,547** | **95.9** |

**Source: STAR and OA Tool as of 9/30/07 and Torto Wheaton Research Office Submarket Forecasts Fall 2007.*

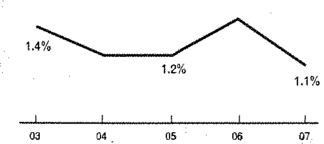

leased
fy07 results

# financial results

The leased portfolio is designed to operate as a pass through in terms of financial impact. Our goal with the leased inventory is to generate FFO between zero and two percent of leased revenue to ensure full cost recovery of contract risk, brokerage services, and property management. Due to delays in occupancy of the DOT Headquarters lease in Washington DC, causing a $42 million loss in FFO, FFO for the leased inventory was in the red for the first time in several years. The inability to pass our full costs on to our customers resulted in leased FFO decreasing to negative $1.6 million. However, even if we remove the DOT Headquarters from our analysis, our growth in expenses still outpaced our growth in direct revenue. On a positive note, at the end of the fiscal year, the leased vacancy rate was the lowest it's been in the past several years. With the growing size and cost of the leased inventory, PBS must ensure it is accurately assigning and billing space to achieve full cost recovery of the leased inventory.

**vacancy rates***

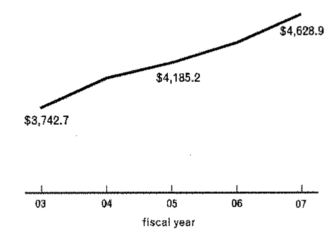
*% of rsf*




*Source: 9/03-9/07 Vacant Space Report*

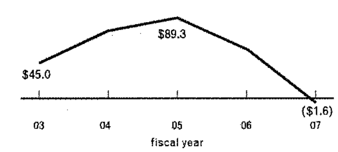
**direct revenue**

*$ in millions (see table 22, page a.22)*




**funds from operations (ffo)**

*$ in millions (see table 22, page a.22)*



## negative NOI

As documented in the quarterly lease analysis, leased locations with a negative net operation income (NOI) continue to be problematic. In FY2007, approximately 1,126 leased locations generated negative NOI, totaling a loss of $120 million. A multi-year analysis was done to determine if leases that lost NOI in FY2005 were able to recover these losses in the following fiscal years. By FY2007, 27 percent of the 1,110 negative NOI lease locations, had still not recovered the loss incurred in FY2005. In fact, 246 leased locations lost an additional $78 million in FY2007. The yearly performance of these locations are shown in the chart below.

**leased NOI performance***
*in millions*

| NOI categories | NOI FY05 | count FY06 | NOI FY06 | count FY07 | NOI FY07 |
|---|---|---|---|---|---|
| **closed** | | 158 | | 240 | |
| **covering past year** | | 331 | $30.9 | 565 | $37.7 |
| **not covering past year** | | 392 | ($51.2) | 246 | ($77.9) |
| **(+) not covering past year** | | 229 | $5.0 | 59 | $2.6 |
| **total** | ($88.0) | 1,110 | ($15.3) | 1,110 | ($37.7) |

*Source: Infowizard FBF07*

## looking ahead

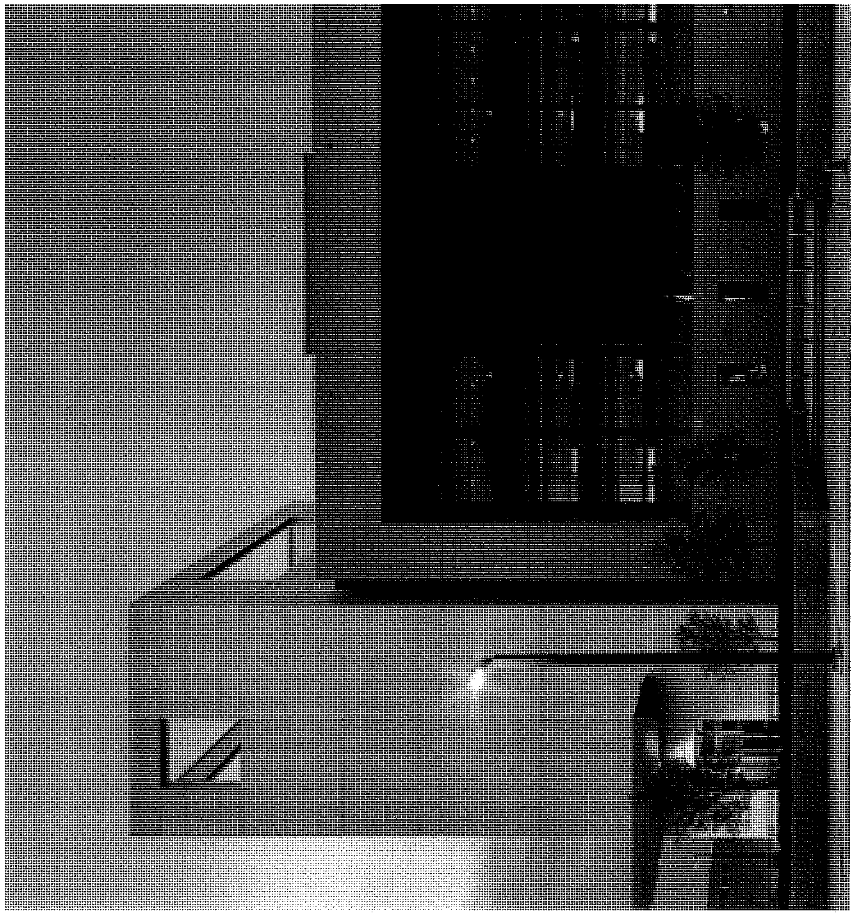
It is PBS' goal in the coming year to use the lease tiering model to implement customer portfolio strategies at the national and regional levels in order to take advantage of market dynamics and create savings for our customers. The FY2006 baseline indicates that PBS is currently competitive with private sector rates, however rental rates in any given market area are constantly changing. As leases expire, we look for opportunities where PBS can negotiate more favorable deals where rents have fallen below our contract rate, or maintain favorable positions so we can pass savings on to our customers.

Over the past few years, PBS has been working to restructure its workforce and introduce new efficiencies to its leasing program that allow us to apply a consistent look and feel to PBS customer relationship management and transactions across the regions. PBS' main initiatives to improve the real estate leasing program include*:

- Implementation of better tools and processes (i.e. National Broker Contract Administration Guide, Leased Delegation Oversight plan, etc.)
- Development of consistent enterprise-wide operations delivery strategies
- Strengthened expertise and breadth of disciplines
- Incorporation of private industry practice and feedback

As a result of our improved efficiencies in the leasing program, PBS has been able to provide additional cost savings to our customers by passing on a reduced rent fee of 7% starting in FY2008.

*For more information on the lease program initiatives, please refer to Commissioner David Winstead's FY2007/2008 Strategic Business Plan.*



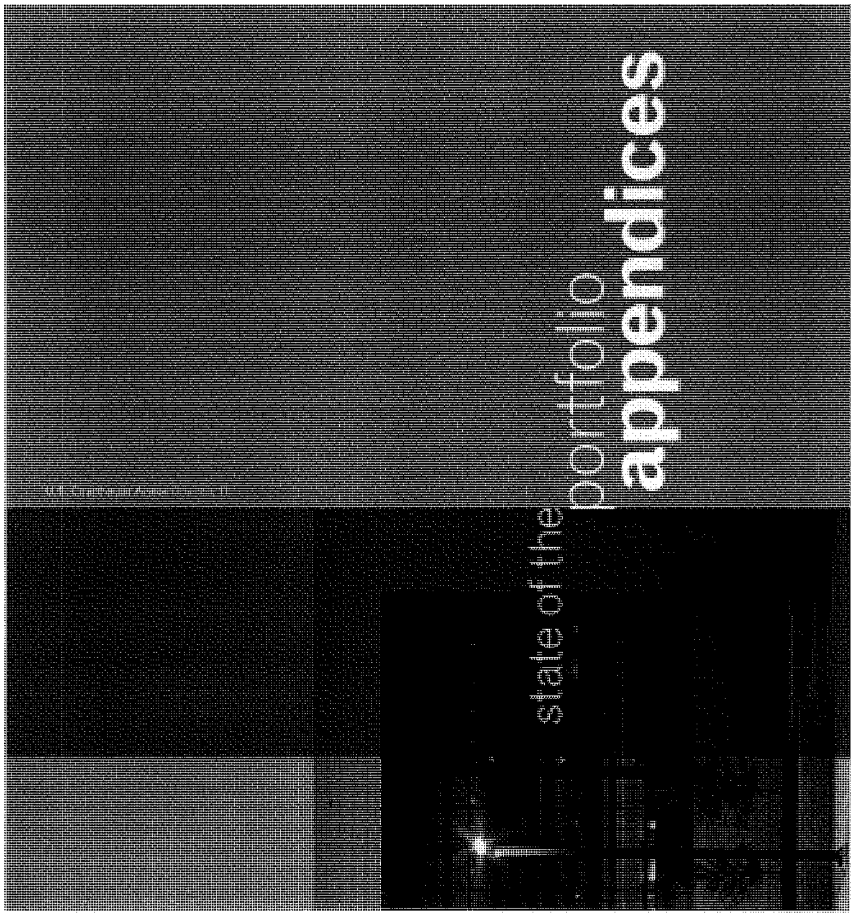

state of the portfolio
appendices

**table 1: snapshot of the portfolio**

| region | funds from operations (ffo) | | rsf | # of buildings |
|---|---|---|---|---|
| | $ in millions | % of total | in millions | |
| 1 new england | $59.1 | 3.6% | 10.5 | 402 |
| 2 northeast & caribbean | 120.0 | 7.3 | 22.1 | 503 |
| 3 mid-atlantic | 162.5 | 9.9 | 34.4 | 759 |
| 4 southeast sunbelt | 130.1 | 7.9 | 40.1 | 1,446 |
| 5 great lakes | 162.1 | 9.9 | 33.7 | 979 |
| 6 heartland | 49.4 | 3.0 | 21.0 | 390 |
| 7 greater southwest | 106.4 | 6.5 | 31.3 | 1,176 |
| 8 rocky mountain | 66.8 | 4.1 | 17.3 | 622 |
| 9 pacific rim | 279.8 | 17.0 | 33.0 | 1,045 |
| 10 northwest/arctic | 92.0 | 5.6 | 15.6 | 607 |
| 11 national capital | 428.3 | 26.1 | 92.9 | 690 |
| central office | (14.0) | (0.9) | 0.0 | 0 |
| total | $1,642.8 | 100.0% | 351.9 | 8,619 |

*Source: FFO from InfoWizard FBF07 model; RSF and # of buildings from 9/07 R240 Report of active buildings with assignable space*

**table 2. total portfolio composition and performance**

| region | # of bldgs. | rsf *in millions* | % of rsf | % occupied | direct revenue *$ in millions* | % of direct revenue |
|---|---|---|---|---|---|---|
| 1 new england | 402 | 10.5 | 3.0% | 90.2% | $239.4 | 3.0% |
| 2 northeast & caribbean | 503 | 22.1 | 6.3 | 93.7 | 732.1 | 9.2 |
| 3 mid-atlantic | 759 | 34.4 | 9.8 | 96.2 | 615.6 | 7.7 |
| 4 southeast sunbelt | 1,446 | 40.1 | 11.4 | 97.0 | 746.8 | 9.3 |
| 5 great lakes | 979 | 33.7 | 9.6 | 94.4 | 682.7 | 8.5 |
| 6 heartland | 390 | 21.0 | 6.0 | 91.0 | 293.2 | 3.7 |
| 7 greater southwest | 1,176 | 31.3 | 8.9 | 96.0 | 544.5 | 6.8 |
| 8 rocky mountain | 622 | 17.3 | 4.9 | 96.1 | 305.7 | 3.8 |
| 9 pacific rim | 1,045 | 33.0 | 9.4 | 96.4 | 917.8 | 11.5 |
| 10 northwest/arctic | 607 | 15.6 | 4.4 | 94.6 | 320.2 | 4.0 |
| 11 national capital | 690 | 92.9 | 26.4 | 97.0 | 2,597.3 | 32.5 |
| central office | 0 | 0.0 | 0.0 | 0.0 | (6.8) | (0.1) |
| total | 8,619 | 351.9 | 100.0% | 95.6% | $7,988.4 | 100.0% |

*Source: # of buildings and RSF from 9/07 R240 Report of active buildings with assignable space; % Occupied from 9/07 Vacant Space Report; Direct Revenue from infowizard FBF07 model*

**table 3. owned vs. leased comparison**

| | owned | | | | leased | | | |
|---|---|---|---|---|---|---|---|---|
| | fy04 | fy05 | fy06 | fy07 | fy04 | fy05 | fy06 | fy07 |
| direct revenue *$ in millions* | $3,362.0 | 3,242.0 | 3,335.4 | $3,359.4 | $4,030.2 | 4,185.0 | 4,385.1 | $4,628.9 |
| noi *$ in millions* | $2,052.2 | 2,194.0 | 2,194.3 | $2121.4 | $219.7 | 238.0 | 219.5 | $194.4 |
| operating margin | 61.0% | 67.6 | 65.8 | 63.1% | 5.5% | 5.8 | 5.0 | 4.2% |
| ffo *$ in millions* | $1,533.0 | 1,672.5 | 1,645.2 | $1,644.4 | $77.4 | 89.3 | 60.3 | $(1.6) |
| ffo/rsf | $8.52 | 9.51 | 9.43 | $9.32 | $0.47 | 0.54 | 0.35 | $(0.01) |
| net income *$ in millions* | $569.4 | 846.9 | 810.3 | $564.5 | $31.7 | 63.1 | 33.6 | $(25.5) |
| ni/rsf | $3.18 | 4.82 | 4.65 | $3.20 | $0.19 | 0.38 | 0.20 | $(0.15) |

*Source: Direct Revenue, FFO, and Net Income from InfoWizard FBF07 model; NOI from Infowizard FBFn07 model* table 4. key markets ranked by direct revenue – total portfolio

| metropolitan statistical area (msa) | # of bldgs. | % of total | rsf *in millions* | % of total | ffo *$ in millions* | % of total | direct revenue *$ in millions* | % of total |
|---|---|---|---|---|---|---|---|---|
| dc-arlington-alexandria, va-md-wv | 1,020 | 11.8% | 86.4 | 24.5% | $458.9 | 27.2% | $2,365.3 | 29.6% |
| new york-wayne-white plains, ny-nj | 161 | 1.9 | 12.8 | 3.6 | 68.1 | 4.0 | 464.9 | 5.8 |
| chicago-naperville-joliet, il | 140 | 1.6 | 8.7 | 2.5 | 73.0 | 4.3 | 234.4 | 2.9 |
| bethesda-frederick-gaithersburg, md | 166 | 1.9 | 9.1 | 2.6 | 31.1 | 1.8 | 219.5 | 2.7 |
| atlanta-sandy springs-marietta, ga | 111 | 1.3 | 8.9 | 2.5 | 42.9 | 2.5 | 173.6 | 2.2 |
| los angeles-long beach-glendale, ca | 144 | 1.7 | 6.5 | 1.8 | 57.9 | 3.4 | 163.4 | 2.0 |
| denver aurora, co | 148 | 1.7 | 8.5 | 2.4 | 37.7 | 2.2 | 155.6 | 1.9 |
| baltimore-towson, md | 103 | 1.2 | 9.5 | 2.7 | 44.6 | 2.6 | 149.4 | 1.9 |
| san fran-san mateo-redwood city, ca | 75 | 0.9 | 4.9 | 1.4 | 49.0 | 2.9 | 141.6 | 1.8 |
| kansas city, mo-ks | 80 | 0.9 | 10.1 | 2.9 | 4.1 | 0.2 | 138.5 | 1.7 |
| philadelphia, pa | 77 | 0.9 | 7.0 | 2.0 | 31.4 | 1.9 | 126.3 | 1.6 |
| seattle-bellevue-everett, wa | 96 | 1.1 | 6.2 | 1.8 | 38.7 | 2.3 | 117.4 | 1.5 |
| boston-quincy, ma | 41 | 0.5 | 3.7 | 1.0 | 45.5 | 2.7 | 103.6 | 1.3 |
| dallas-plano-irving, tx | 74 | 0.9 | 4.4 | 1.2 | 16.2 | 1.0 | 84.9 | 1.1 |
| st. louis, mo-il | 95 | 1.1 | 7.2 | 2.0 | 35.1 | 2.1 | 84.4 | 1.1 |
| san diego-carlsbad-san marcos, ca | 91 | 1.1 | 3.0 | 0.8 | 19.6 | 1.2 | 83.7 | 1.0 |
| detroit-livonia-dearborn, mi | 53 | 0.6 | 3.3 | 0.9 | 13.1 | 0.8 | 75.7 | 0.9 |
| newark-union, nj-pa | 40 | 0.5 | 2.3 | 0.6 | 11.3 | 0.7 | 72.3 | 0.9 |
| cleveland-elyria-mentor, oh | 58 | 0.7 | 2.8 | 0.8 | 28.2 | 1.7 | 65.7 | 0.8 |
| portland-vancouver-beaverton, or-wa | 66 | 0.8 | 3.0 | 0.9 | 23.4 | 1.4 | 64.0 | 0.8 |
| top 20 totals | 2,839 | 32.9% | 208.0 | 59.1% | $1,129.7 | 67.0% | $5,084.0 | 63.6% |

*Note: The DOT Headquarters was removed from this analysis because of its large negative FFO dollars*

*Source: MSAs from Office of Management and Budget; # of buildings and RSF from STAR as of 9/30/07; FFO and Direct Revenue from InfoWizard FBF07 model*

table 5. client billing records (CBRs) – total portfolio

| square footage category | # of CBRs | % of total | rsf *in millions* | % of total | annualized rent *$ in millions* | % of total | annualized rent/rsf *billed ($)* |
|---|---|---|---|---|---|---|---|
| 0 | 1,738 | 8.2% | 0.0 | 0.0% | $70.4 | 0.8% | $0.00 |
| 1-2,500 | 6,928 | 32.6 | 7.4 | 2.3 | 161.7 | 1.9 | 21.92 |
| 2,501-5,000 | 3,208 | 15.1 | 11.8 | 3.6 | 273.9 | 3.3 | 23.15 |
| 5,001-7,500 | 2,139 | 10.1 | 13.2 | 4.0 | 311.6 | 3.7 | 23.57 |
| 7,501-10,000 | 1,410 | 6.6 | 12.3 | 3.8 | 284.9 | 3.4 | 23.15 |
| 10,001-20,000 | 2,631 | 12.4 | 36.8 | 11.2 | 918.6 | 10.9 | 24.99 |
| 20,001-40,000 | 1,612 | 7.6 | 44.7 | 13.7 | 1,133.5 | 13.5 | 25.35 |
| 40,001-60,000 | 564 | 2.7 | 27.4 | 8.4 | 755.4 | 9.0 | 27.58 |
| 60,001-100,000 | 483 | 2.3 | 37.2 | 11.3 | 1,037.5 | 12.3 | 27.92 |
| 100,001+ | 547 | 2.6 | 136.8 | 41.8 | 3,470.2 | 41.2 | 25.36 |
| total | 21,260 | 100.0% | 327.6 | 100.0% | $8,417.6 | 100.0% | $25.70 |

*0 sf represents parking, land, and other assets with no square footage*

*Source: # of CBRs and RSF represent September 2007 billing; annualized rent represents September 2007 rent bill annualized; from BIS 9/30/07.*

**table 6. CBR expirations by region**

| fy of expiration | fy08 | fy09 | fy10 | fy11 | fy12 | fy13+ | total |
|---|---|---|---|---|---|---|---|
| **region 1–new england** | | | | | | | |
| # of CBRs | 280 | 135 | 150 | 116 | 111 | 131 | 923 |
| rsf *in millions* | 3.5 | 0.9 | 0.9 | 1.1 | 1.2 | 1.8 | 9.5 |
| annualized rent *$ in millions* | $95.9 | 20.5 | 27.9 | 27.3 | 36.1 | 47.9 | $255.8 |
| average CBR term *in years* | 9.4 | 7.9 | 12.6 | 8.2 | 10.0 | 12.0 | 10.0 |
| **region 2–northeast and caribbean** | | | | | | | |
| # of CBRs | 300 | 299 | 173 | 146 | 88 | 459 | 1,465 |
| rsf *in millions* | 4.3 | 3.3 | 2.5 | 2.1 | 1.3 | 7.2 | 20.7 |
| annualized rent *$ in millions* | $111.0 | 129.4 | 66.9 | 94.2 | 53.6 | 339.0 | $794.1 |
| average CBR term *in years* | 8.6 | 8.4 | 11.0 | 9.8 | 9.6 | 13.2 | 10.5 |
| **region 3–mid-atlantic** | | | | | | | |
| # of CBRs | 258 | 137 | 132 | 108 | 269 | 869 | 1,773 |
| rsf *in millions* | 4.1 | 1.5 | 2.9 | 4.6 | 3.8 | 15.6 | 32.6 |
| annualized rent *$ in millions* | $65.5 | 24.7 | 47.8 | 62.4 | 58.3 | 302.7 | $561.4 |
| average CBR term *in years* | 8.4 | 8.4 | 8.9 | 9.6 | 10.2 | 12.1 | 10.6 |
| **region 4–southeast sunbelt** | | | | | | | |
| # of CBRs | 617 | 577 | 447 | 406 | 462 | 992 | 3,501 |
| rsf *in millions* | 5.3 | 6.0 | 3.2 | 4.0 | 5.0 | 13.9 | 37.5 |
| annualized rent *$ in millions* | $98.5 | 101.2 | 65.0 | 63.6 | 100.5 | 312.7 | $741.5 |
| average CBR term *in years* | 6.5 | 6.3 | 6.4 | 6.9 | 7.8 | 11.1 | 8.0 |
| **region 5–great lakes** | | | | | | | |
| # of CBRs | 461 | 516 | 327 | 294 | 261 | 696 | 2,555 |
| rsf *in millions* | 4.4 | 5.6 | 2.7 | 3.7 | 2.9 | 12.0 | 31.3 |
| annualized rent *$ in millions* | $78.8 | 103.9 | 55.5 | 62.0 | 66.2 | 345.1 | $711.6 |
| average CBR term *in years* | 5.3 | 5.3 | 6.3 | 6.1 | 8.7 | 13.1 | 8.0 |
| **region 6–heartland** | | | | | | | |
| # of CBRs | 240 | 123 | 185 | 118 | 150 | 337 | 1,153 |
| rsf *in millions* | 3.2 | 1.8 | 2.9 | 1.0 | 2.5 | 7.2 | 18.6 |
| annualized rent *$ in millions* | $31.1 | 25.1 | 42.5 | 14.1 | 29.8 | 141.2 | $283.8 |
| average CBR term *in years* | 8.3 | 10.2 | 9.7 | 9.9 | 10.9 | 13.5 | 10.8 |

**table 6. CBR expirations by region (continued)**

| fy of expiration | fy08 | fy09 | fy10 | fy11 | fy12 | fy13+ | total |
|---|---|---|---|---|---|---|---|
| **region 7–greater southwest** | | | | | | | |
| # of CBRs | 811 | 313 | 166 | 127 | 166 | 1270 | 2,853 |
| rsf *in millions* | 8.3 | 2.3 | 1.2 | 1.1 | 2.3 | 14.6 | 29.9 |
| annualized rent *$ in millions* | $145.2 | 41.5 | 20.3 | 22.4 | 41.4 | 284.2 | $554.9 |
| average CBR term *in years* | 8.9 | 7.9 | 8.7 | 10.4 | 10.9 | 13.8 | 11.1 |
| **region 8–rocky mountain** | | | | | | | |
| # of CBRs | 358 | 243 | 225 | 166 | 173 | 418 | 1,583 |
| rsf *in millions* | 4.0 | 2.0 | 1.2 | 1.5 | 2.3 | 5.5 | 16.5 |
| annualized rent *$ in millions* | $63.4 | 41.2 | 18.2 | 23.8 | 49.4 | 135.1 | $331.0 |
| average CBR term *in years* | 5.9 | 6.9 | 6.7 | 6.8 | 6.9 | 13.8 | 8.5 |
| **region 9–pacific rim** | | | | | | | |
| # of CBRs | 518 | 346 | 287 | 211 | 274 | 690 | 2,326 |
| rsf *in millions* | 6.8 | 3.6 | 2.6 | 2.4 | 4.6 | 11.5 | 31.5 |
| annualized rent *$ in millions* | $192.2 | 84.7 | 72.0 | 67.0 | 134.7 | 363.7 | $914.4 |
| average CBR term *in years* | 8.5 | 9.4 | 12.3 | 9.9 | 12.0 | 12.5 | 10.8 |
| **region 10–northwest/arctic** | | | | | | | |
| # of CBRs | 407 | 270 | 211 | 298 | 131 | 487 | 1,804 |
| rsf *in millions* | 3.3 | 1.9 | 2.4 | 0.9 | 1.5 | 3.8 | 13.6 |
| annualized rent *$ in millions* | $66.9 | 37.5 | 48.9 | 20.8 | 38.2 | 107.0 | $319.4 |
| average CBR term *in years* | 6.9 | 9.2 | 7.9 | 8.3 | 8.3 | 12.5 | 9.2 |
| **region 11–national capital** | | | | | | | |
| # of CBRs | 392 | 184 | 196 | 176 | 112 | 264 | 1,324 |
| rsf *in millions* | 18.2 | 13.4 | 11.6 | 11.8 | 6.6 | 24.5 | 86.0 |
| annualized rent *$ in millions* | $644.6 | 361.0 | 359.5 | 297.1 | 225.5 | 1,062.2 | $2,949.9 |
| average CBR term *in years* | 7.3 | 7.9 | 6.8 | 8.4 | 10.6 | 12.2 | 8.7 |
| **nationwide** | | | | | | | |
| # of CBRs | 4,642 | 3,143 | 2,499 | 2,166 | 2,197 | 6,613 | 21,260 |
| rsf *in millions* | 65.5 | 42.3 | 34.1 | 34.3 | 33.7 | 117.7 | 327.6 |
| annualized rent *$ in millions* | $1,593.1 | 970.8 | 824.6 | 754.8 | 833.6 | 3,440.8 | $8,417.6 |
| average CBR term *in years* | 7.6 | 7.5 | 8.5 | 8.2 | 9.5 | 12.7 | 9.5 |

*Source: Annualized rent represents September 2007 rent bill annualized from BIS 9/30/07; # of CBRs, RSF, and CBR term represent September 2007 billing from BIS 9/30/07.*

table 7. core customers ranked by rent – total inventory

| agency | rent $ in millions | % of total | # of CBRs | % of total | rsf in millions | % of total |
|---|---|---|---|---|---|---|
| justice | $1,207.1 | 16.1% | 3,040 | 14.3% | 42.9 | 13.1% |
| dhs | 911.3 | 12.1 | 3,096 | 14.6 | 33.6 | 10.3 |
| judiciary | 910.9 | 12.1 | 2,862 | 13.5 | 40.5 | 12.4 |
| treasury | 622.7 | 8.3 | 1,019 | 4.8 | 31.3 | 9.5 |
| ssa | 548.5 | 7.3 | 1,907 | 9.0 | 28.2 | 8.6 |
| hhs | 350.2 | 4.7 | 740 | 3.5 | 14.8 | 4.5 |
| defense | 304.0 | 4.0 | 616 | 2.9 | 15.5 | 4.7 |
| interior | 260.6 | 3.5 | 1,089 | 5.1 | 13.5 | 4.1 |
| commerce | 251.5 | 3.3 | 332 | 1.6 | 11.1 | 3.4 |
| epa | 210.0 | 2.8 | 175 | 0.8 | 6.9 | 2.1 |
| all others | 1,936.8 | 25.8 | 6,384 | 30.0 | 89.3 | 27.3 |
| total | $7,513.6 | 100.0% | 21,260 | 100.0% | 327.6 | 100.0% |

*Source: Rent represents total amount billed in FY07; # of CBRs and RSF represent September 2007 billing; from BIS 9/30/07*

**table 8. income statement – total inventory**

| *$ in millions* | fy03 | fy04 | fy05 | fy06 | fy07 |
|---|---|---|---|---|---|
| direct revenue (+) | $6,904.7 | $7,392.6 | $7,427.5 | $7,720.5 | $7,988.4 |
| operations and maintenance | 740.6 | 785.2 | 808.7 | 865.9 | 912.7 |
| protection | 429.0 | 442.9 | 14.6 | 27.2 | 45.5 |
| rental of space | 3,376.4 | 3,634.8 | 3,862.9 | 4,080.3 | 4,340.7 |
| real estate | 13.9 | 17.9 | 14.6 | 9.4 | 8.3 |
| repairs and alterations | 31.7 | 36.4 | 57.0 | 88.9 | 96.6 |
| other | 29.5 | 56.9 | 77.3 | 70.5 | 90.7 |
| total G&A expenses | 649.7 | 656.8 | 686.4 | 731.7 | 708.6 |
| purchase contracts | 155.2 | 151.1 | 144.2 | 141.2 | 142.6 |
| total funded expenses (–) | 5,425.8 | 5,782.0 | 5,665.6 | 6,015.0 | 6,345.6 |
| funds from operations (=) | 1,478.9 | 1,610.6 | 1,761.8 | 1,705.5 | 1,642.8 |
| depreciation (–) | 1,028.4 | 1,009.5 | 851.9 | 861.6 | 1,103.7 |
| nonFBF outlease exp (–) | 0.0 | – | – | – | – |
| nonFBF outlease rev (–) | 0.6 | – | – | – | – |
| net income | $451.1 | $601.1 | $910.0 | $843.9 | $539.0 |

*Source: InfoWizard FBF07, FBF05, FBF02 models*

**table 9. owned portfolio composition and performance by region**

| region | # of buildings | owned rsf *in millions* | % of owned rsf | direct revenue *$ in millions* | ffo *$ in millions* |
|---|---|---|---|---|---|
| 1 new england | 95 | 6.2 | 3.5% | $127.9 | $59.2 |
| 2 northeast & caribbean | 54 | 12.4 | 7.0 | 348.2 | 119.7 |
| 3 mid-atlantic | 99 | 16.2 | 9.2 | 288.7 | 159.8 |
| 4 southeast sunbelt | 138 | 17.1 | 9.7 | 251.3 | 113.9 |
| 5 great lakes | 127 | 19.9 | 11.3 | 327.8 | 171.9 |
| 6 heartland | 61 | 12.2 | 6.9 | 133.5 | 48.1 |
| 7 greater southwest | 318 | 15.7 | 8.9 | 228.9 | 109.4 |
| 8 rocky mountain | 160 | 9.8 | 5.6 | 146.7 | 64.9 |
| 9 pacific rim | 159 | 17.6 | 10.0 | 447.8 | 271.3 |
| 10 northwest/arctic | 111 | 9.4 | 5.3 | 161.1 | 94.0 |
| 11 national capital | 191 | 40.0 | 22.7 | 904.3 | 446.1 |
| central office | 0 | 0.0 | 0.0 | (6.8) | (14.0) |
| total | 1,513 | 176.4 | 100.0% | $3,359.4 | $1,644.4 |

*Source: # of buildings and RSF from 9/07 R240 Report of active buildings with assignable space; Direct Revenue and FFO from InfoWizard FBF07 model*

**table 10. owned distribution by square footage**

| square footage category | # of bldgs. | % of total | rsf in millions | % of total | direct revenue $ in millions | % of total | /rsf |
|---|---|---|---|---|---|---|---|
| 0 | 98 | 6.5% | 0.0 | 0.0% | $16.6 | 0.5% | $0.00 |
| 1-2,500 | 223 | 14.8 | 0.3 | 0.1 | 5.2 | 0.2 | 20.49 |
| 2,501-5,000 | 153 | 10.1 | 0.6 | 0.3 | 12.7 | 0.4 | 22.46 |
| 5,001-7,500 | 86 | 5.7 | 0.5 | 0.3 | 9.7 | 0.3 | 18.33 |
| 7,501-10,000 | 64 | 4.2 | 0.6 | 0.3 | 11.3 | 0.3 | 20.20 |
| 10,001-20,000 | 137 | 9.1 | 1.9 | 1.1 | 30.8 | 0.9 | 15.92 |
| 20,001-40,000 | 125 | 8.3 | 3.7 | 2.1 | 59.1 | 1.8 | 16.00 |
| 40,001-60,000 | 92 | 6.1 | 4.5 | 2.6 | 67.9 | 2.1 | 14.91 |
| 60,001-100,000 | 108 | 7.2 | 8.5 | 4.8 | 127.3 | 3.9 | 14.98 |
| 100,001+ | 424 | 28.1 | 156.1 | 88.3 | 2,925.9 | 89.6 | 18.75 |
| total | 1,510 | 100.0% | 176.6 | 100.0% | $3,266.4 | 100.0% | 18.49 |

*0 sf represents parking, land, and other assets with no square footage*
*Source: # of buildings and RSF from STAR as of 9/30/07; Direct Revenue from Infowizard FBF07*

**table 11. asset performance by property type**

| property type | rsf in millions | direct revenue $ in millions | direct revenue $/rsf | ffo $ in millions | ffo $/rsf | vacancy rate (%) |
|---|---|---|---|---|---|---|
| office building | 130.7 | $2,471.9 | $18.91 | $1,262.0 | $9.65 | 6.2% |
| courthouse | 30.2 | 619.5 | 20.48 | 311.3 | 10.29 | 1.2 |
| warehouse | 10.7 | 58.9 | 5.52 | 21.5 | 2.02 | 0.3 |
| laboratory | 1.6 | 37.2 | 22.67 | 25.6 | 15.63 | 0.0 |
| other | 3.4 | 78.9 | 23.38 | 13.0 | 3.85 | 0.1 |
| total | 176.6 | $3,266.4 | $18.49 | $1,633.4 | $9.25 | 7.7% |

*Source: RSF from STAR as of 9/30/07; Direct Revenue and FFO from Infowizard FBF07 model; Vacancy Rate from 9/07 Vacant Space Report* table 12. key markets ranked by direct revenue – owned inventory

| metropolitan statistical area (msa) | # of bldgs. | % of total | rsf *in millions* | % of total | ffo *$ in millions* | % of total | direct revenue *$ in millions* | % of total |
|---|---|---|---|---|---|---|---|---|
| dc-arlington-alexandria, va-md-wv | 233 | 15.4% | 40.7 | 23.1% | $438.5 | 26.7% | $858.8 | 25.6% |
| new york-wayne-white plains, ny-nj | 15 | 1.0 | 8.2 | 4.6 | 72.8 | 4.4 | 245.4 | 7.3 |
| chicago-naperville-joliet, il | 19 | 1.3 | 5.6 | 3.2 | 75.4 | 4.6 | 126.3 | 3.8 |
| boston-quincy, ma | 14 | 0.9 | 3.9 | 2.2 | 57.9 | 3.5 | 89.9 | 2.7 |
| los angeles-long beach-glendale, ca | 65 | 4.3 | 5.5 | 3.1 | 37.2 | 2.3 | 87.3 | 2.6 |
| san fran-san mateo-redwood city, ca | 25 | 1.7 | 3.5 | 2.0 | 47.6 | 2.9 | 86.6 | 2.6 |
| denver aurora, co | 21 | 1.4 | 5.9 | 3.3 | 44.3 | 2.7 | 80.0 | 2.4 |
| baltimore-towson, md | 5 | 0.3 | 2.9 | 1.7 | 45.8 | 2.8 | 75.6 | 2.3 |
| seattle-bellevue-everett, wa | 26 | 1.7 | 4.4 | 2.5 | 40.1 | 2.4 | 63.9 | 1.9 |
| st. louis, mo-il | 39 | 2.6 | 6.0 | 3.4 | 33.9 | 2.1 | 62.5 | 1.9 |
| philadelphia, pa | 10 | 0.7 | 3.3 | 1.9 | 31.6 | 1.9 | 57.8 | 1.7 |
| atlanta-sandy springs-marietta, ga | 8 | 0.5 | 3.3 | 1.8 | 29.8 | 1.8 | 57.2 | 1.7 |
| kansas city, mo-ks | 4 | 0.3 | 2.0 | 1.1 | 28.6 | 1.7 | 44.8 | 1.3 |
| cleveland-elyria-mentor, oh | 19 | 1.3 | 4.6 | 2.6 | 3.6 | 0.2 | 42.5 | 1.3 |
| santa ana-anaheim-irvine, ca | 32 | 2.1 | 2.0 | 1.1 | 26.7 | 1.6 | 40.9 | 1.2 |
| portland-vancouver-beaverton, or-wa | 9 | 0.6 | 1.7 | 1.0 | 24.0 | 1.5 | 37.1 | 1.1 |
| sacramento-arden-arcade-roseville, ca | 10 | 0.7 | 1.9 | 1.1 | 23.6 | 1.4 | 34.6 | 1.0 |
| san diego-carlsbad-san marcos, ca | 7 | 0.5 | 1.4 | 0.8 | 23.5 | 1.4 | 33.9 | 1.0 |
| suffolk county-nassau county, ny | 10 | 0.7 | 1.5 | 0.9 | 12.2 | 0.7 | 31.5 | 0.9 |
| oakland-fremont-hayward, ca | 22 | 1.5 | 1.3 | 0.7 | 18.3 | 1.1 | 31.1 | 0.9 |
| top 20 totals | 593 | 39.2% | 109.6 | 62.1% | $1,115.3 | 67.8% | $2,187.5 | 65.1% |

*Source: MSAs from Office of Management and Budget; # of Buildings and RSF from STAR as of 9/30/07; FFO and Direct Revenue from InfoWizard FBF07 model*

**table 13. key markets – market vacancy rates vs. GSA vacancy rate**

| metropolitan statistical area (msa) | class a market vacancy % | class b market vacancy % | class c market vacancy % | owned GSA vacancy % |
|---|---|---|---|---|
| dc-arlington-alexandria, va-md-wv | 10.6% | 9.7% | 10.3% | 4.9% |
| new york-wayne-white plains, ny-nj | 5.3 | 5.4 | 4.9 | 12.2 |
| chicago-naperville-joliet, il | 14.5 | 14.5 | 8.7 | 9.9 |
| boston-quincy, ma | 11.6 | 12.2 | 7.2 | 21.3 |
| los angeles-long beach-glendale, ca | 9.7 | 7.2 | 3.5 | 6.2 |
| san fran-san mateo-redwood city, ca | 10.9 | 10.7 | 4.9 | 4.6 |
| denver aurora, co | 10.9 | 14.6 | 9.1 | 5.1 |
| baltimore-towson, md | 14.5 | 12.2 | 8.5 | 10.7 |
| seattle-bellevue-everett, wa | 7.9 | 10.5 | 5.1 | 9.9 |
| st. louis, mo-il | 10.2 | 12.8 | 8.2 | 13.1 |
| philadelphia, pa | 12.4 | 13.7 | 10.9 | 1.1 |
| atlanta-sandy springs-marietta, ga | 14.8 | 13.7 | 11.9 | 4.6 |
| kansas city, mo-ks | 13.8 | 12.2 | 12.3 | 15.6 |
| cleveland-elyria-mentor, oh | 12.9 | 14.7 | 10.9 | 5.9 |
| santa ana-anaheim-irvine, ca | 12.0 | 9.4 | 4.2 | 15.5 |
| portland-vancouver-beaverton, or-wa | 7.7 | 12.1 | 9.1 | 8.2 |
| sacramento-arden-arcade-roseville, ca | 11.6 | 16.3 | 11.3 | 8.1 |
| san diego-carlsbad-san marcos, ca | 15.8 | 10.7 | 5.2 | 0.6 |
| suffolk county-nassau county, ny | 10.7 | 11.2 | 6.4 | 6.9 |
| oakland-fremont-hayward, ca | n/a | n/a | n/a | 7.4% |

*Source: MSAs from Office of Management and Budget; Class A, B, & C Vacancy Rates from CoSTAR; Owned Vacancy Rate from 9/07 Vacant Space Report*

**table 14. core customers ranked by rent – owned inventory**

| agency | rent $ in millions | % of total | # of CBRs | % of total | rsf in millions | % of total |
|---|---|---|---|---|---|---|
| judiciary | $752.7 | 24.3% | 2,129 | 21.7% | 34.5 | 22.1% |
| justice | 428.8 | 13.9 | 1,427 | 14.6 | 17.4 | 11.2 |
| dhs | 327.0 | 10.6 | 1,324 | 13.5 | 12.6 | 8.1 |
| treasury | 242.9 | 7.8 | 334 | 3.4 | 14.6 | 9.4 |
| ssa | 103.3 | 3.3 | 327 | 3.3 | 9.2 | 5.9 |
| interior | 102.4 | 3.3 | 316 | 3.2 | 5.8 | 3.7 |
| epa | 100.2 | 3.2 | 54 | 0.6 | 2.9 | 1.9 |
| hhs | 98.6 | 3.2 | 253 | 2.6 | 4.9 | 3.1 |
| commerce | 95.0 | 3.1 | 136 | 1.4 | 5.7 | 3.6 |
| gsa | 89.1 | 2.9 | 1,083 | 11.1 | 5.2 | 3.3 |
| all others | 755.1 | 24.4 | 2,406 | 24.6 | 43.4 | 27.8 |
| total | $3,095.0 | 100.0% | 9,789 | 100.0% | 156.2 | 100.0% |

*Source: Rent represents total amount billed in FY07; # of CBRs and RSF represent September 2007 billing; from BIS 9/30/07*

**table 15. income statement – owned inventory**

| *$ in millions* | fy03 | fy04 | fy05 | fy06 | fy07 |
|---|---|---|---|---|---|
| direct revenue (+) | $3,161.9 | $3,362.4 | $3,242.3 | $3,335.4 | $3,359.4 |
| operations and maintenance | 693.0 | 739.7 | 758.5 | 811.2 | 860.0 |
| protection | 327.6 | 342.9 | 14.0 | 25.6 | 41.5 |
| rental of space | 3.8 | 0.0 | 0.4 | 1.0 | 3.1 |
| real estate | 2.6 | 6.1 | 4.4 | 2.7 | 3.3 |
| repairs and alterations | 29.5 | 34.6 | 52.6 | 85.5 | 92.5 |
| other | 26.0 | 53.0 | 72.0 | 64.9 | 77.6 |
| total G&A expenses | 494.2 | 505.5 | 525.6 | 561.4 | 498.0 |
| purchase contracts | 151.5 | 147.4 | 140.6 | 137.8 | 139.2 |
| total funded expenses (–) | 1,728.2 | 1,829.2 | 1,568.2 | 1,690.1 | 1,715.0 |
| funds from operations (=) | 1,433.9 | 1,533.1 | 1,672.5 | 1,645.2 | 1,644.4 |
| depreciation (–) | 980.2 | 963.7 | 823.7 | 834.9 | 1,079.9 |
| nonFBF outlease exp (–) | 0.0 | – | – | – | – |
| nonFBF outlease rev (–) | 0.6 | – | – | – | – |
| net income | $454.2 | $569.4 | $846.9 | $810.3 | $564.5 |

*Source: InfoWizard FBF07, FBF05, and FBF02 models* table 16. leased portfolio composition and performance

| region | # of bldgs. | leased rsf *in millions* | % of leased rsf | direct revenue *$ in millions* | ffo *$ in millions* |
|---|---|---|---|---|---|
| 1 new england | 307 | 4.4 | 2.5% | $111.5 | $(0.1) |
| 2 northeast & caribbean | 449 | 9.7 | 5.5 | 383.9 | 0.3 |
| 3 mid-atlantic | 660 | 18.2 | 10.4 | 326.9 | 2.7 |
| 4 southeast sunbelt | 1,308 | 23.0 | 13.1 | 495.5 | 16.3 |
| 5 great lakes | 852 | 13.8 | 7.9 | 354.9 | (9.8) |
| 6 heartland | 329 | 8.8 | 5.0 | 159.6 | 1.4 |
| 7 greater southwest | 858 | 15.7 | 8.9 | 315.6 | (3.0) |
| 8 rocky mountain | 462 | 7.4 | 4.2 | 159.0 | 2.0 |
| 9 pacific rim | 886 | 15.3 | 8.7 | 470.0 | 8.5 |
| 10 northwest/arctic | 496 | 6.2 | 3.6 | 159.0 | (2.1) |
| 11 national capital | 499 | 52.9 | 30.1 | 1,693.0 | (17.8) |
| total | 7,106 | 175.5 | 100.0% | $4,628.9 | $(1.6) |

*Source: # of buildings and RSF from 9/07 R240 Report of active buildings with assignable space; Direct Revenue and FFO from InfoWizard FBF07 model* table 17. leased distribution by square footage

| square footage category | # of leases | % of total | rsf *in millions* | % of total | current annual rent* (car) *$ in millions* | % of total | car/rsf *($)* |
|---|---|---|---|---|---|---|---|
| 0 | 181 | 2.1% | 0.0 | 0.0% | $21.5 | 0.5% | $0.00 |
| 1-2,500 | 1,820 | 21.2 | 2.3 | 1.3 | 48.8 | 1.2 | 21.29 |
| 2,501-5,000 | 1,432 | 16.7 | 5.4 | 3.1 | 122.1 | 2.9 | 22.59 |
| 5,001-7,500 | 1,135 | 13.2 | 7.0 | 4.0 | 149.9 | 3.6 | 21.38 |
| 7,501-10,000 | 768 | 9.0 | 6.7 | 3.8 | 151.8 | 3.6 | 22.68 |
| 10,001-20,000 | 1,415 | 16.5 | 19.7 | 11.2 | 466.3 | 11.1 | 23.61 |
| 20,001-40,000 | 887 | 10.3 | 24.7 | 14.1 | 599.5 | 14.2 | 24.23 |
| 40,001-60,000 | 330 | 3.8 | 16.3 | 9.3 | 433.3 | 10.3 | 26.54 |
| 60,001-100,000 | 297 | 3.5 | 22.9 | 13.0 | 569.8 | 13.5 | 24.90 |
| 100,001 + | 310 | 3.6 | 70.6 | 40.2 | 1,656.2 | 39.3 | 23.45 |
| total | 8,575 | 100.0% | 175.7 | 100.0% | $4,219.1 | 100.0% | $24.01 |

**Current Annual Rent represents payments to lessors*

*Source: # of Leases, RSF, and Current Annual Rent from STAR as of 9/30/07 and represent all leases that are active or active pending change* table 18. lease performance by property type

| property type | rsf *in millions* | direct revenue *$ in millions* | ffo *$ in millions* | vacancy rate *(%)* | current annual rent *$ in millions* |
|---|---|---|---|---|---|
| office | 155.1 | $4,304.5 | $9.9 | 1.0% | $3,943.8 |
| courthouse | 1.3 | 31.1 | (5.0) | 0.0 | 30.2 |
| warehouse | 15.4 | 156.8 | (4.9) | 0.1 | 141.2 |
| laboratory | 0.9 | 28.1 | (0.9) | 0.0 | 26.2 |
| other | 3.1 | 84.5 | 8.4 | 0.0 | 77.8 |
| total | 175.7 | $4,604.9 | $7.4 | 1.1% | $4,219.1 |

*Source: RSF and Current Annual Rent from STAR as of 9/30/07; Direct Revenue and FFO from InfoWizard FBF07 model; Vacancy Rate from 9/07 Vacant Space Report* table 19. key markets ranked by direct revenue – leased inventory

| metropolitan statistical area (msa) | # of bldgs. | % of total | rsf *in millions* | % of total | ffo *$ in millions* | % of total | direct revenue *$ in millions* | % of total |
|---|---|---|---|---|---|---|---|---|
| dc-arlington-alexandria, va-md-wv | 564 | 7.9% | 45.0 | 25.8% | $21.5 | 53.1% | $1,506.4 | 32.5% |
| new york-wayne-white plains, ny-nj | 146 | 2.1 | 4.6 | 2.6 | (4.7) | (11.6) | 219.5 | 4.7 |
| bethesda-frederick-gaithersburg, md | 104 | 1.5 | 7.1 | 4.1 | 4.4 | 10.9 | 178.6 | 3.9 |
| atlanta-sandy springs-marietta, ga | 101 | 1.4 | 5.6 | 3.2 | 11.3 | 27.9 | 115.9 | 2.5 |
| chicago-naperville-joliet, il | 121 | 1.7 | 3.2 | 1.8 | (2.5) | (6.1) | 108.2 | 2.3 |
| kansas city, mo-ks | 61 | 0.9 | 5.5 | 3.1 | 0.5 | 1.3 | 96.0 | 2.1 |
| los angeles-long beach-glendale, ca | 130 | 1.8 | 2.5 | 1.5 | 0.0 | 0.1 | 73.4 | 1.6 |
| baltimore-towson, md | 80 | 1.1 | 3.7 | 2.1 | 0.6 | 1.5 | 69.3 | 1.5 |
| philadelphia, pa | 68 | 1.0 | 3.7 | 2.1 | 1.7 | 4.1 | 69.0 | 1.5 |
| denver aurora, co | 83 | 1.2 | 3.0 | 1.7 | 0.5 | 1.3 | 68.3 | 1.5 |
| dallas-plano-irving, tx | 68 | 1.0 | 2.5 | 1.4 | 0.8 | 2.0 | 55.3 | 1.2 |
| san fran-san mateo-redwood city, ca | 50 | 0.7 | 1.4 | 0.8 | 1.4 | 3.3 | 55.1 | 1.2 |
| seattle-bellevue-everett, wa | 70 | 1.0 | 1.8 | 1.0 | (1.5) | (3.6) | 53.5 | 1.2 |
| san diego-carlsbad-san marcos, ca | 67 | 0.9 | 1.6 | 0.9 | 1.2 | 2.9 | 52.6 | 1.1 |
| newark-union, nj-pa | 36 | 0.5 | 1.4 | 0.8 | 1.3 | 3.2 | 49.6 | 1.1 |
| detroit-livonia-dearborn, mi | 44 | 0.6 | 1.6 | 0.9 | (1.7) | (4.1) | 46.8 | 1.0 |
| fresno, ca | 35 | 0.5 | 1.5 | 0.8 | 0.9 | 2.1 | 34.0 | 0.7 |
| phoenix-mesa-scottsdale, az | 58 | 0.8 | 1.3 | 0.8 | 1.2 | 3.1 | 33.9 | 0.7 |
| ponce, pr | 57 | 0.8 | 0.9 | 0.5 | 0.9 | 2.3 | 33.0 | 0.7 |
| va beach-norfolk-newport news, va-nc | 50 | 0.7 | 1.7 | 1.0 | 1.2 | 2.9 | 31.1 | 0.7 |
| top 20 totals | 1,993 | 28.1% | 99.4 | 57.0% | $39.1 | 96.6% | $2,949.5 | 63.7% |

*Note: The DOT Headquarters was removed from this analysis because of its large negative FFO dollars*

*Source: MSAs from Office of Management and Budget; # of Buildings and RSF from STAR as of 9/30/07; FFO and Direct Revenue from InfoWizard FBF07 model*

table 20. key markets – market vacancy rates vs. GSA vacancy rate

| metropolitan statistical area (msa) | class a market vacancy % | class b market vacancy % | class c market vacancy % | owned GSA vacancy % |
|---|---|---|---|---|
| dc-arlington-alexandria, va-md-wv | 10.6% | 9.7% | 10.3% | 1.4% |
| new york-wayne-white plains, ny-nj | 5.3 | 5.4 | 4.9 | 2.5 |
| bethesda-frederick-gaithersburg, md | n/a | n/a | n/a | 0.7 |
| atlanta-sandy springs-marietta, ga | 14.8 | 13.7 | 11.9 | 1.1 |
| chicago-naperville-joliet, il | 14.5 | 14.5 | 8.7 | 1.5 |
| kansas city, mo-ks | 13.8 | 12.2 | 12.3 | 1.1 |
| los angeles-long beach-glendale, ca | 9.7 | 7.2 | 3.5 | 1.7 |
| baltimore-towson, md | 14.5 | 12.2 | 8.5 | 0.9 |
| philadelphia, pa | 12.4 | 13.7 | 10.9 | 0.2 |
| denver aurora, co | 10.9 | 14.6 | 9.1 | 0.6 |
| dallas-plano-irving, tx | 15.2 | 20.3 | 11.2 | 0.1 |
| san fran-san mateo-redwood city, ca | 10.9 | 10.7 | 4.9 | 0.7 |
| seattle-bellevue-everett, wa | 7.9 | 10.5 | 5.1 | 2.0 |
| san diego-carlsbad-san marcos, ca | 15.8 | 10.7 | 5.2 | 3.3 |
| newark-union, nj-pa | 15.9 | 10.7 | 7.2 | 0.9 |
| detroit-livonia-dearborn, mi | 16.0 | 19.2 | 12.3 | 0.1 |
| fresno, ca | n/a | n/a | n/a | 0.2 |
| phoenix-mesa-scottsdale, az | 13.8 | 14.7 | 6.9 | 0.4 |
| ponce, pr | n/a | n/a | n/a | 0.2 |
| va beach-norfolk-newport news, va-nc | 6.9% | 8.5% | 6.4% | 0.6% |

*Source: MSAs from Office of Management and Budget; Class A, B, & C Vacancy Rates from CoSTAR; Leased Vacancy Rate from 9/07 Vacant Space Report* table 21. core customers ranked by rent – leased inventory

| agency | rent $ in millions | % of total | # of CBRs | % of total | rsf in millions | % of total |
|---|---|---|---|---|---|---|
| justice | $778.3 | 17.6% | 1,613 | 14.1% | 25.5 | 14.8% |
| dhs | 584.2 | 13.2 | 1,772 | 15.4 | 21.0 | 12.3 |
| ssa | 445.2 | 10.1 | 1,580 | 13.8 | 19.0 | 11.1 |
| treasury | 379.8 | 8.6 | 685 | 6.0 | 16.6 | 9.7 |
| hhs | 251.6 | 5.7 | 487 | 4.2 | 9.9 | 5.8 |
| defense | 250.5 | 5.7 | 430 | 3.7 | 10.3 | 6.0 |
| judiciary | 158.2 | 3.6 | 733 | 6.4 | 6.0 | 3.5 |
| interior | 158.2 | 3.6 | 773 | 6.7 | 7.7 | 4.5 |
| commerce | 156.5 | 3.5 | 196 | 1.7 | 5.4 | 3.1 |
| agriculture | 136.0 | 3.1 | 695 | 6.1 | 6.4 | 3.7 |
| all others | 1,119.9 | 25.3 | 2,507 | 21.9 | 43.5 | 25.4 |
| total | $4,418.6 | 100.0% | 11,471 | 100.0% | 171.4 | 100.0% |

*Source: Rent represents total amount billed in FY07; # of CBRs and RSF represent September 2007 billing, from BIS 9/30/07* table 22. income statement – leased inventory

| $ in millions | fy03 | fy04 | fy05 | fy06 | fy07 |
|---|---|---|---|---|---|
| direct revenue (+) | $3,742.7 | $4,030.2 | $4,185.2 | $4,385.1 | $4,628.9 |
| operations and maintenance | 47.6 | 45.5 | 50.3 | 54.7 | 52.6 |
| protection | 101.4 | 100.0 | 0.6 | 1.6 | 4.0 |
| rental of space | 3,372.6 | 3,634.7 | 3,862.4 | 4,079.2 | 4,337.6 |
| real estate | 11.3 | 11.9 | 10.2 | 6.7 | 5.1 |
| repairs and alterations | 2.2 | 1.8 | 4.4 | 3.3 | 4.1 |
| other | 3.5 | 3.9 | 5.2 | 5.6 | 13.2 |
| total G&A expenses | 155.5 | 151.3 | 160.8 | 170.3 | 210.6 |
| purchase contracts | 3.7 | 3.6 | 3.5 | 3.4 | 3.4 |
| total funded expenses (–) | 3,697.7 | 3,952.7 | 4,097.4 | 4,324.9 | 4,630.6 |
| funds from operations (=) | 45.0 | 77.4 | 89.3 | 60.3 | (1.6) |
| depreciation (–) | 48.2 | 45.8 | 28.2 | 26.6 | 23.9 |
| nonFBF outlease revenue (+) | 0.0 | 0.0 | – | – | – |
| net income | $(3.1) | $31.7 | $63.1 | $33.6 | $(25.5) |

*Source: InfoWizard FBF07, FBF05, and FBF02 models* table 23. profitability of leased locations (ffo)

| | # of leased locations | | | ffo | | |
|---|---|---|---|---|---|---|
| | unprofitable | break even | profitable | unprofitable $ in millions | break even | profitable $ in millions |
| fy03 | 2,032 | 31 | 5,561 | $(194.6) | — | $239.6 |
| fy04 | 1,538 | 15 | 6,111 | (153.6) | — | 231.1 |
| fy05 | 1,664 | 11 | 6,077 | (143.7) | — | 236.8 |
| fy06 | 1,322 | 6 | 5,808 | (135.3) | — | 221.6 |
| fy07 | 2,090 | 29 | 5,248 | $(195.5) | — | $201.4 |

*Source: InfoWizard FBF07, FBF05, and FBF02 models and represents all leased buildings with revenue and/or expenses in a given FY* table 24. negative NOI leases

| region | # of leased locations | rsf *in millions* | ffo *$ in millions* |
|---|---|---|---|
| 1 new england | 73 | 0.5 | $(2.1) |
| 2 northeast & caribbean | 64 | 1.0 | (10.2) |
| 3 mid-atlantic | 61 | 2.2 | (6.1) |
| 4 southeast sunbelt | 229 | 3.4 | (16.4) |
| 5 great lakes | 138 | 1.0 | (6.0) |
| 6 heartland | 44 | 0.6 | (3.0) |
| 7 greater southwest | 192 | 2.7 | (10.9) |
| 8 rocky mountain | 61 | 0.7 | (2.6) |
| 9 pacific rim | 77 | 1.8 | (11.2) |
| 10 northwest/arctic | 39 | 0.3 | (2.1) |
| 11 national capital | 148 | 10.5 | (97.7) |
| total | 1,126 | 24.7 | $(168.5) |

*Source: InfoWizard FBF07 model*

table 25. lease extensions

| region | expired (fy07) | extended less than 1 year | | extended 1-3 years | | extended 3+ years | | total extended | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | leases | rsf in millions | leases | rsf in millions | leases | rsf in millions | leases | rsf in millions | % ext'd. |
| 1 new england | 14 | 35 | 0.3 | 40 | 0.2 | 2 | 0.0 | 77 | 0.4 | 84.6% |
| 2 northeast & caribbean | 23 | 27 | 0.4 | 67 | 0.8 | 12 | 0.1 | 106 | 1.3 | 82.2 |
| 3 mid-atlantic | 43 | 26 | 0.5 | 58 | 0.6 | 25 | 0.5 | 109 | 1.6 | 71.7 |
| 4 southeast sunbelt | 100 | 77 | 0.8 | 132 | 1.4 | 13 | 0.3 | 222 | 2.5 | 68.9 |
| 5 great lakes | 70 | 56 | 0.4 | 116 | 0.8 | 14 | 0.1 | 186 | 1.3 | 72.7 |
| 6 heartland | 25 | 21 | 0.4 | 8 | 0.1 | 11 | 0.1 | 40 | 0.6 | 61.5 |
| 7 greater southwest | 47 | 106 | 1.0 | 94 | 1.0 | 16 | 0.2 | 216 | 2.1 | 82.1 |
| 8 rocky mountain | 37 | 17 | 0.1 | 49 | 0.4 | 5 | 0.1 | 71 | 0.6 | 65.7 |
| 9 pacific rim | 71 | 95 | 1.1 | 123 | 1.2 | 16 | 0.1 | 234 | 2.4 | 76.7 |
| 10 northwest/arctic | 46 | 40 | 0.3 | 29 | 0.1 | 13 | 0.2 | 82 | 0.6 | 64.1 |
| 11 national capital | 17 | 78 | 2.6 | 41 | 2.3 | 32 | 0.9 | 151 | 5.8 | 89.9 |
| nationwide | 493 | 578 | 7.7 | 757 | 8.9 | 159 | 2.6 | 1,494 | 19.2 | 75.2% |

*Source: STAR as of 9/30/07*

table 26. lease expirations by region

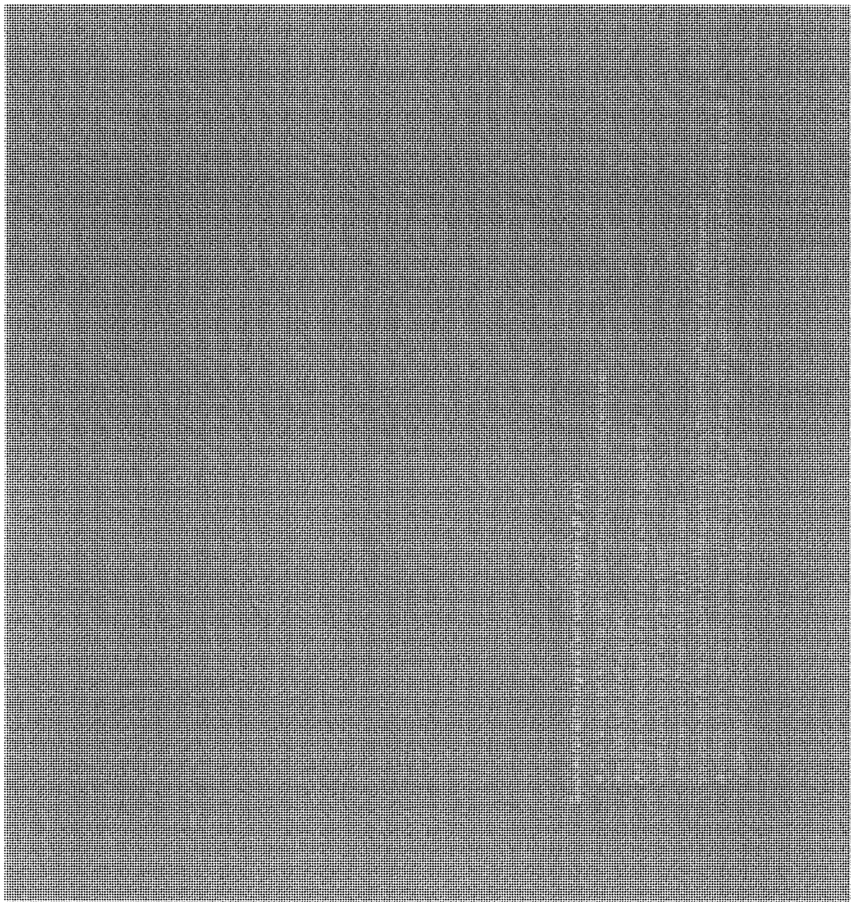
| fy of expiration | fy08 | fy09 | fy10 | fy11 | fy12 | fy13+ | total |
|---|---|---|---|---|---|---|---|
| region 1–new england | | | | | | | |
| # of leases | 82 | 56 | 34 | 25 | 21 | 100 | 318 |
| current annual rent *$ in millions* | $22.4 | 9.6 | 16.9 | 4.1 | 5.8 | 42.5 | $101.2 |
| rsf (lease) *in millions* | 0.9 | 0.5 | 0.6 | 0.2 | 0.2 | 1.8 | 4.2 |
| average lease term *in years* | 9.2 | 11.9 | 9.8 | 9.1 | 8.8 | 11.8 | 10.1 |
| region 2–northeast and caribbean | | | | | | | |
| # of leases | 146 | 71 | 36 | 67 | 58 | 166 | 544 |
| current annual rent *$ in millions* | $46.2 | 26.4 | 11.4 | 44.2 | 49.8 | 155.1 | $333.2 |
| rsf (lease) *in millions* | 1.8 | 1.1 | 0.3 | 1.1 | 1.3 | 4.0 | 9.6 |
| average lease term *in years* | 10.1 | 8.4 | 9.1 | 9.0 | 9.3 | 11.1 | 9.5 |
| region 3–mid-atlantic | | | | | | | |
| # of leases | 171 | 85 | 65 | 65 | 85 | 301 | 772 |
| current annual rent *$ in millions* | $43.8 | 16.0 | 16.2 | 30.4 | 21.8 | 165.1 | $293.3 |
| rsf (lease) *in millions* | 3.0 | 1.0 | 1.2 | 2.6 | 1.4 | 8.7 | 17.9 |
| average lease term *in years* | 10.1 | 10.1 | 9.9 | 11.5 | 10.9 | 11.3 | 10.6 |
| region 4–southeast sunbelt | | | | | | | |
| # of leases | 289 | 175 | 137 | 123 | 143 | 581 | 1,448 |
| current annual rent *$ in millions* | $49.0 | 43.9 | 31.4 | 24.6 | 43.4 | 258.0 | $450.3 |
| rsf (lease) *in millions* | 2.7 | 2.4 | 1.7 | 1.3 | 2.1 | 12.2 | 22.5 |
| average lease term *in years* | 8.6 | 8.9 | 8.6 | 9.1 | 9.3 | 11.3 | 9.3 |
| region 5–great lakes | | | | | | | |
| # of leases | 222 | 140 | 88 | 69 | 70 | 403 | 992 |
| current annual rent *$ in millions* | $42.4 | 25.4 | 22.4 | 17.7 | 22.2 | 182.1 | $312.2 |
| rsf (lease) *in millions* | 2.1 | 1.9 | 0.9 | 0.7 | 0.8 | 7.2 | 13.7 |
| average lease term *in years* | 10.3 | 9.6 | 9.5 | 8.5 | 11.6 | 13.2 | 10.5 |
| region 6–heartland | | | | | | | |
| # of leases | 49 | 42 | 62 | 29 | 18 | 153 | 353 |
| current annual rent *$ in millions* | $10.2 | 8.0 | 18.9 | 4.1 | 9.5 | 91.4 | $142.0 |
| rsf (lease) *in millions* | 0.8 | 0.5 | 1.1 | 0.2 | 1.0 | 5.1 | 8.7 |
| average lease term *in years* | 9.5 | 12.3 | 9.5 | 9.4 | 12.6 | 12.3 | 10.9 |

table 26. lease expirations by region

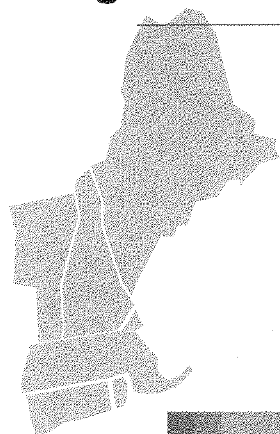
| fy of expiration | fy08 | fy09 | fy10 | fy11 | fy12 | fy13+ | total |
|---|---|---|---|---|---|---|---|
| region 7–greater southwest | | | | | | | |
| # of leases | 200 | 113 | 85 | 67 | 94 | 354 | 913 |
| current annual rent *$ in millions* | $36.0 | 18.5 | 12.3 | 14.0 | 28.7 | 159.6 | $269.1 |
| rsf (lease) *in millions* | 2.1 | 1.2 | 0.6 | 0.8 | 1.7 | 7.9 | 14.5 |
| average lease term *in years* | 9.2 | 8.5 | 9.3 | 11.0 | 10.0 | 13.1 | 10.2 |
| region 8–rocky mountain | | | | | | | |
| # of leases | 104 | 66 | 58 | 33 | 41 | 198 | 500 |
| current annual rent *$ in millions* | $16.6 | 14.6 | 5.2 | 7.4 | 14.3 | 87.6 | $145.6 |
| rsf (lease) *in millions* | 1.0 | 0.8 | 0.4 | 0.3 | 0.7 | 4.1 | 7.4 |
| average lease term *in years* | 8.2 | 9.4 | 9.1 | 10.1 | 9.5 | 12.9 | 9.9 |
| region 9–pacific rim | | | | | | | |
| # of leases | 243 | 122 | 86 | 75 | 87 | 356 | 969 |
| current annual rent *$ in millions* | $59.5 | 45.4 | 25.5 | 30.7 | 42.8 | 216.9 | $420.8 |
| rsf (lease) *in millions* | 2.3 | 1.7 | 0.9 | 1.1 | 1.7 | 7.2 | 14.9 |
| average lease term *in years* | 8.5 | 9.2 | 8.5 | 8.7 | 9.9 | 11.9 | 9.5 |
| region 10–northwest/arctic | | | | | | | |
| # of leases | 127 | 118 | 80 | 54 | 51 | 107 | 537 |
| current annual rent *$ in millions* | $15.4 | 20.5 | 27.2 | 14.1 | 11.5 | 51.2 | $140.0 |
| rsf (lease) *in millions* | 0.8 | 1.0 | 1.1 | 0.6 | 0.5 | 2.0 | 6.0 |
| average lease term *in years* | 6.1 | 7.6 | 8.0 | 7.2 | 8.4 | 11.6 | 8.2 |
| region 11–national capital | | | | | | | |
| # of leases | 171 | 123 | 99 | 112 | 68 | 179 | 752 |
| current annual rent *$ in millions* | $260.2 | 153.9 | 150.4 | 135.8 | 145.9 | 639.6 | $1,485.8 |
| rsf (lease) *in millions* | 9.0 | 5.5 | 6.0 | 5.2 | 4.9 | 20.7 | 51.2 |
| average lease term *in years* | 7.5 | 8.0 | 7.7 | 8.2 | 9.9 | 11.5 | 8.8 |
| nationwide | | | | | | | |
| # of leases | 1,804 | 1,111 | 830 | 719 | 736 | 2,898 | 8,098 |
| current annual rent *$ in millions* | $601.7 | 382.3 | 337.9 | 327.1 | 395.7 | 2,049.0 | $4,093.7 |
| rsf (lease) *in millions* | 26.5 | 17.6 | 15.0 | 14.2 | 16.2 | 80.9 | 170.4 |
| average lease term *in years* | 8.9 | 9.1 | 8.9 | 9.2 | 9.9 | 12.1 | 9.7 |

*Source: STAR as of 9/30/07*


portfolio
fy07 regional
fact sheets



# **region 1.** new england



| | [illegible] | [illegible] | [illegible] |
|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
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| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |

**owned**

**tiering**

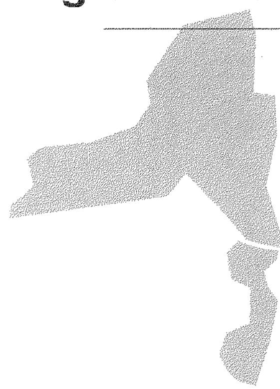
| | # of bldgs. | rsf *in millions* |
|---|---|---|
| tier 1 | 52 | 3.8 |
| tier 2a | 13 | 0.6 |
| tier 2b | 5 | 0.1 |
| tier 3 | 23 | 1.7 |

| | % of bldgs. |
|---|---|
| core performing | 64.2% |
| core under/non-performing | 10.5% |
| transition | 8.4% |
| disposal | 13.7% |

**leased**

| | # of leases |
|---|---|
| regional total | 332 |
| expired in fy07 | 91 |
| extended | 77 |
| | **# of locations** |
| negative NOI | 73 |
| % of regional total | 22.0% |
| excess revenue | 51 |
| % of regional total | 15.4% |

# **region 2.** northeast and caribbean



| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| # of CBRs | [illegible] | [illegible] | [illegible] |
| rsf | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| direct revenue | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | # of bldgs. | rsf *in millions* |
|---|---|---|---|
| tiering | tier 1 | 24 | 6.3 |
| | tier 2a | 7 | 4.2 |
| | tier 2b | 5 | 0.5 |
| | tier 3 | 19 | 1.5 |
| core assets | | % of bldgs. | |
| | core performing | 79.6% | |
| | core under/non-performing | 3.7% | |
| | transition | 13.0% | |
| | disposal | 13.0% | |

| leased | | # of leases |
|---|---|---|
| | regional total | 476 |
| | expired in fy07 | 129 |
| | extended | 106 |
| | | # of locations |
| | negative NOI | 64 |
| | % of regional total | 13.5% |
| | excess revenue | 73 |
| | % of regional total | 15.3% |

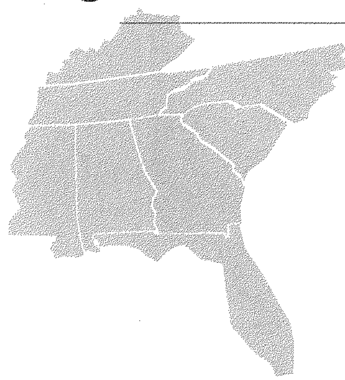
# **region 3.** mid-atlantic

| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| # of CBRs | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| direct revenue [illegible] | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | | # of bldgs. | rsf *in millions* |
|---|---|---|---|---|
| | tiering | tier 1 | 69 | 11.8 |
| | | tier 2a | 7 | 2.3 |
| | | tier 2b | 3 | 0.6 |
| | | tier 3 | 28 | 2.0 |
| | core assets | | % of bldgs. | |
| | | core performing | 58.6% | |
| | | core under/non-performing | 9.1% | |
| | | transition | 18.2% | |
| | | disposal | 36.4% | |

| leased | | # of leases |
|---|---|---|
| | regional total | 708 |
| | expired in fy07 | 152 |
| | extended | 109 |
| | | # of locations |
| | negative NOI | 61 |
| | % of regional total | 8.6% |
| | excess revenue | 138 |
| | % of regional total | 19.5% |

# **region 4.** southeast sunbelt

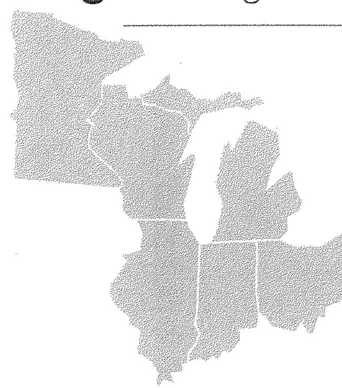


| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | # of bldgs. | rsf *in millions* |
|---|---|---|---|
| tiering | tier 1 | 48 | 8.7 |
| | tier 2a | 30 | 3.8 |
| | tier 2b | 10 | 1.5 |
| | tier 3 | 50 | 2.8 |
| core assets | | | % of bldgs. |
| | core performing | | 56.5% |
| | core under/non-performing | | 21.0% |
| | transition | | 17.4% |
| | disposal | | 6.5% |

| leased | | # of leases |
|---|---|---|
| | regional total | 1,434 |
| | expired in fy07 | 322 |
| | extended | 222 |
| | | # of locations |
| | negative NOI | 229 |
| | % of regional total | 16.0% |
| | excess revenue | 198 |
| | % of regional total | 13.8% |

# **region 5.** great lakes



| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| # of CBRs | [illegible] | [illegible] | [illegible] |
| rsf in millions | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| NOI in millions | [illegible] | [illegible] | [illegible] |
| direct revenue in millions | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

**owned**

| tiering | # of bldgs. | rsf *in millions* |
|---|---|---|
| tier 1 | 97 | 14.8 |
| tier 2a | 6 | 1.1 |
| tier 2b | 4 | 0.1 |
| tier 3 | 28 | 3.7 |

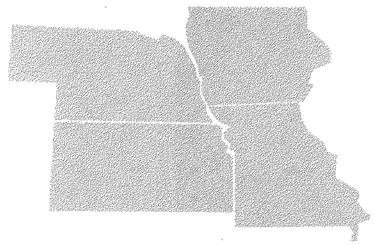
| core assets | % of bldgs. |
|---|---|
| core performing | 63.8% |
| core under/non-performing | 32.3% |
| transition | 14.2% |
| disposal | 3.1% |

**leased**

| | # of leases |
|---|---|
| regional total | 969 |
| expired in fy07 | 256 |
| extended | 186 |

| | # of locations |
|---|---|
| negative NOI | 138 |
| % of regional total | 14.2% |
| excess revenue | 90 |
| % of regional total | 9.3% |

# region 6. heartland

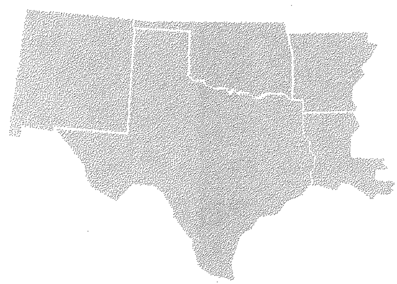


| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| # of CBRs | [illegible] | [illegible] | [illegible] |
| rsf in millions | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| fy revenue | [illegible] | [illegible] | [illegible] |
| direct revenue [illegible] | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | # of bldgs. | rsf *in millions* |
|---|---|---|---|
| tiering | tier 1 | 19 | 6.7 |
| | tier 2a | 0 | 0.0 |
| | tier 2b | 0 | 0.0 |
| | tier 3 | 47 | 5.4 |
| core assets | | % of bldgs. | |
| | core performing | 31.1% | |
| | core under/non-performing | 29.5% | |
| | transition | 47.5% | |
| | disposal | 11.5% | |

| leased | | # of leases |
|---|---|---|
| | regional total | 369 |
| | expired in fy07 | 65 |
| | extended | 40 |
| | | # of locations |
| | negative NOI | 44 |
| | % of regional total | 11.9% |
| | excess revenue | 45 |
| | % of regional total | 12.2% |

# region 7. greater southwest



| | | owned | leased | total |
|---|---|---|---|---|
| [illegible] | # of bldgs. | [illegible] | [illegible] | [illegible] |
| | [illegible] | [illegible] | [illegible] | [illegible] |
| | rsf [illegible] | [illegible] | [illegible] | [illegible] |
| | % of rsf total | [illegible] | [illegible] | [illegible] |
| | vacancy rate | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | direct revenue [illegible] | [illegible] | [illegible] | [illegible] |
| | % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | | # of bldgs. | rsf *in millions* |
|---|---|---|---|---|
| | tiering | tier 1 | 280 | 12.2 |
| | | tier 2a | 23 | 0.1 |
| | | tier 2b | 18 | 1.2 |
| | | tier 3 | 32 | 2.3 |
| | core assets | | % of bldgs. | |
| | | core performing | 89.9% | |
| | | core under/non-performing | 11.9% | |
| | | transition | 9.4% | |
| | | disposal | 5.0% | |

| leased | | # of leases |
|---|---|---|
| | regional total | 939 |
| | expired in fy07 | 263 |
| | extended | 216 |
| | | # of locations |
| | negative NOI | 192 |
| | % of regional total | 20.5% |
| | excess revenue | 91 |
| | % of regional total | 9.7% |

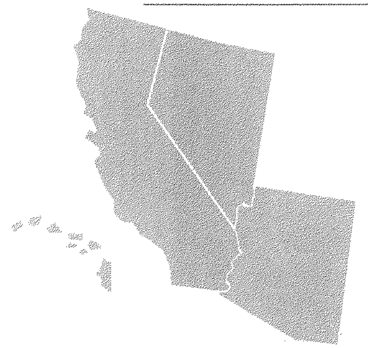
# **region 8.** rocky mountain

| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| # of CBRs | [illegible] | [illegible] | [illegible] |
| rsf [illegible] | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] |
| direct revenue [illegible] | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | # of bldgs. | rsf *in millions* |
|---|---|---|---|
| tiering | tier 1 | 127 | 6.8 |
| | tier 2a | 16 | 2.2 |
| | tier 2b | 9 | 0.1 |
| | tier 3 | 16 | 0.9 |
| core assets | | % of bldgs. | |
| | core performing | 64.4% | |
| | core under/non-performing | 11.9% | |
| | transition | 18.1% | |
| | disposal | 11.3% | |

| leased | # of leases |
|---|---|
| regional total | 520 |
| expired in fy07 | 108 |
| extended | 71 |
| | # of locations |
| negative NOI | 61 |
| % of regional total | 11.7% |
| excess revenue | 67 |
| % of regional total | 12.9% |

# **region 9.** pacific rim



| | owned | leased | total |
|---|---|---|---|
| # of bldgs. | [illegible] | [illegible] | [illegible] |
| # of CBRs | [illegible] | [illegible] | [illegible] |
| rsf in millions | [illegible] | [illegible] | [illegible] |
| % of rsf total | [illegible] | [illegible] | [illegible] |
| vacancy rate | [illegible] | [illegible] | [illegible] |
| ffo in millions | [illegible] | [illegible] | [illegible] |
| direct revenue in millions | [illegible] | [illegible] | [illegible] |
| % of revenue total | [illegible] | [illegible] | [illegible] |

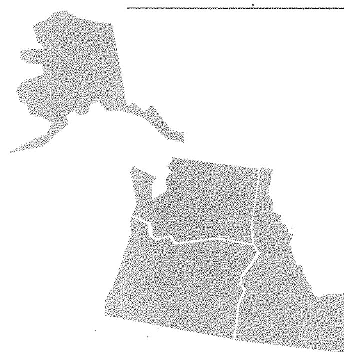
| owned | | # of bldgs. | rsf in millions |
|---|---|---|---|
| tiering | tier 1 | 133 | 15.1 |
| | tier 2a | 3 | 0.8 |
| | tier 2b | 10 | 0.7 |
| | tier 3 | 7 | 1.2 |

| owned | | % of bldgs. |
|---|---|---|
| core assets | core performing | 91.2% |
| | core under/non-performing | 4.4% |
| | transition | 2.5% |
| | disposal | 5.0% |

| leased | | # of leases |
|---|---|---|
| | regional total | 949 |
| | expired in fy07 | 305 |
| | extended | 234 |

| leased | | # of locations |
|---|---|---|
| | negative NOI | 77 |
| | % of regional total | 8.1% |
| | excess revenue | 140 |
| | % of regional total | 14.8% |

# **region 10.** northwest arctic

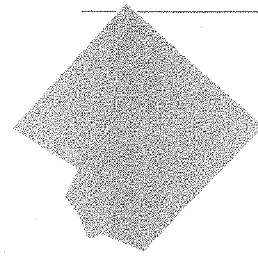


| [illegible] | | [illegible] | [illegible] | [illegible] |
|---|---|---|---|---|
| [illegible] | # of bldgs. | [illegible] | [illegible] | [illegible] |
| | # of CBRs | [illegible] | [illegible] | [illegible] |
| | rsf in millions | [illegible] | [illegible] | [illegible] |
| | % of rsf total | [illegible] | [illegible] | [illegible] |
| | vacancy rate | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | direct revenue [illegible] | [illegible] | [illegible] | [illegible] |
| | % of revenue total | [illegible] | [illegible] | [illegible] |

| owned | | # of bldgs. | rsf *in millions* |
|---|---|---|---|
| tiering | tier 1 | 64 | 7.8 |
| | tier 2a | 18 | 0.8 |
| | tier 2b | 6 | 0.1 |
| | tier 3 | 20 | 0.7 |
| core assets | | | % of bldgs. |
| | core performing | | 52.3% |
| | core under/non-performing | | 9.0% |
| | transition | | 34.2% |
| | disposal | | 6.3% |

| leased | | # of leases |
|---|---|---|
| | regional total | 525 |
| | expired in fy07 | 128 |
| | extended | 82 |
| | | # of locations |
| | negative NOI | 39 |
| | % of regional total | 7.4% |
| | excess revenue | 70 |
| | % of regional total | 13.3% |

# **region 11.** national capital



| | | | owned | leased | total |
|---|---|---|---|---|---|
| [illegible] | [illegible] | # of bldgs. | [illegible] | [illegible] | [illegible] |
| | | # of CBRs | [illegible] | [illegible] | [illegible] |
| | | rsf in millions | [illegible] | [illegible] | [illegible] |
| | | % of rsf total | [illegible] | [illegible] | [illegible] |
| | | vacancy rate | [illegible] | [illegible] | [illegible] |
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | | direct revenue [illegible] | [illegible] | [illegible] | [illegible] |
| | | % of revenue total | [illegible] | [illegible] | [illegible] |

| | | | # of bldgs. | rsf *in millions* |
|---|---|---|---|---|
| owned | tiering | tier 1 | 98 | 14.5 |
| | | tier 2a | 33 | 13.3 |
| | | tier 2b | 15 | 6.5 |
| | | tier 3 | 44 | 6.3 |
| | | | % of bldgs. | |
| | core assets | core performing | 49.7% | |
| | | core under/non-performing | 47.6% | |
| | | transition | 30.9% | |
| | | disposal | 8.9% | |

| | | # of leases |
|---|---|---|
| leased | regional total | 556 |
| | expired in fy07 | 168 |
| | extended | 151 |
| | | # of locations |
| | negative NOI | 148 |
| | % of regional total | 26.6% |
| | excess revenue | 126 |
| | % of regional total | 22.7% |

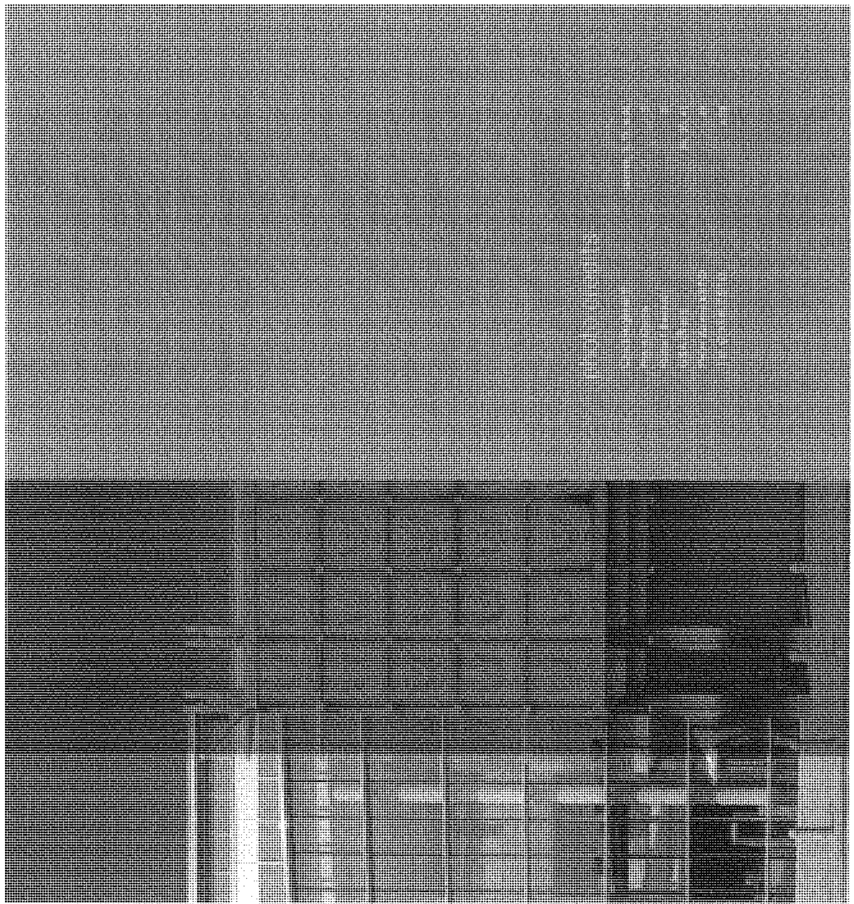
# acronyms

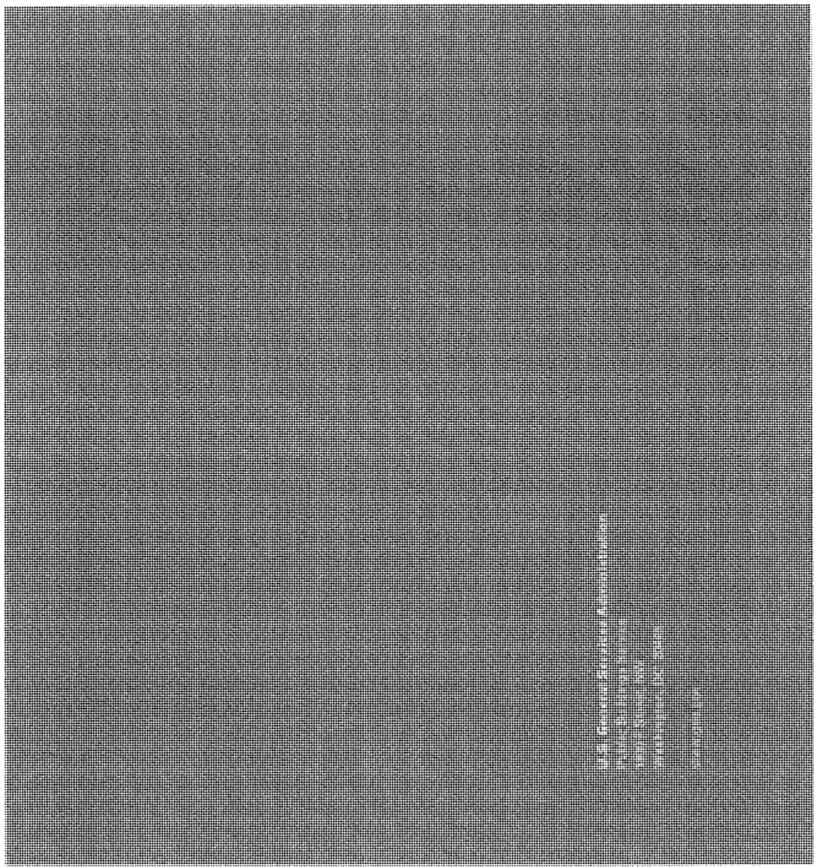
## agencies and departments

| | |
|---|---|
| Agriculture | Department of Agriculture |
| Commerce | Department of Commerce |
| CBP | Customs and Border Protection |
| Defense | Department of Defense |
| DHS | Department of Homeland Security |
| DOT | Department of Transportation |
| EPA | Environmental Protection Agency |
| FBI | Federal Bureau of Investigation |
| GSA | General Services Administration |
| HHS | Health and Human Services |
| Interior | Department of the Interior |
| Judiciary | Federal Judiciary |
| Justice | Department of Justice |
| PBS | Public Buildings Service |
| SSA | Social Security Administration |
| Treasury | Department of the Treasury |

## terms

| | |
|---|---|
| CAR | Current Annual Rent |
| CBR | Client Billing Record |
| FBF | Federal Buildings Fund |
| FCI | Facility Condition Index |
| FFO | Funds From Operations |
| FRPC | Federal Real Property Council |
| FRV | Functional Replacement Value |
| FY | Fiscal Year |
| G&A | General and Administrative |
| GSF | Gross Square Footage |
| IRIS | Inventory Reporting Information System |
| MSA | Metropolitan Statistical Area |
| NOI | Net Operating Income |
| OA | Occupancy Agreement |
| PCS | Physical Condition Survey |
| PMA | President's Management Agenda |
| R&A | Repair and Alterations |
| RBM | Rent Bill Management |
| ROE | Return on Equity |
| RSF | Rentable Square Feet |
| STAR | System for Tracking and Administering Real Property |




U.S. General Services Administration