

**HOW TO STOP SITTING ON OUR ASSETS:
A REVIEW OF THE
CIVILIAN PROPERTY REALIGNMENT ACT**

(112-31)

HEARING
BEFORE THE
SUBCOMMITTEE ON
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND
EMERGENCY MANAGEMENT
OF THE
COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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**U.S. House of Representatives
Committee on Transportation and Infrastructure**

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Washington, DC 20515

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Ranking Member

May 6, 2011

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BRIEFING MEMORANDUM

TO: Members of the Subcommittee on Economic Development, Public Buildings, and Emergency Management
FROM: Subcommittee on Economic Development, Public Buildings, and Emergency Management Staff
SUBJECT: Legislative Hearing on "How to Stop Sitting on Our Assets: A Review of the Civilian Property Realignment Act"

PURPOSE

The Subcommittee on Economic Development, Public Buildings and Emergency Management will meet on Thursday, May 12, 2011, at 10:30 a.m., in 2167 Rayburn House Office Building to receive testimony from the Office of Management and Budget, the Department of State and the private sector. The hearing will focus on the specific legislative proposals to employ a BRAC-like process to civilian properties to produce significant savings to the taxpayer.

BACKGROUND

At the February 10, 2011 Subcommittee hearing, Chairman Denham proposed exploring the use of a civilian BRAC process to address the chronic management issues and waste as it relates to federal real property. Shortly thereafter, the President included in the proposed Fiscal Year 2012 Budget Section 735, proposing a civilian BRAC process. On May 4, 2011, both the administration and Chairman Denham of the Subcommittee released proposals to apply a BRAC-like process to civilian properties.

Both proposals entitled, the "Civilian Property Realignment Act" would establish a framework through which a Board or Commission would independently review federal properties and make recommendations for consolidations, co-locations, redevelopment, selling or other actions to minimize costs and produce savings for the taxpayer. The legislation, H.R. 1734, was introduced by Chairman Denham on May 4.

Attached to this memorandum are section-by-section analyses of both H.R. 1734 and the administration's proposal. However, key differences include:

- **Commission**: H.R. 1734 creates a 9-member commission, appointed by the President and Senate confirmed with input by leadership in the House and Senate, similar to the BRAC Commission. The administration's proposal creates a 7-member Board appointed by the President. The proposals also vary on terms for the members of the Commission.
- **Development of Recommendations**: The administration's proposal requires federal agencies to send information and initial recommendations to the Board. H.R. 1734 would require initial recommendations submitted to the Commission be compiled through GSA, in consultation with the chairperson of the Federal Real Property Council, and analyzed against standardized criteria that are consistent with the standards detailed in the legislation.
- **Postal Facilities**: The administration's proposal establishes additional requirements for the annual review of postal field offices.
- **State Department Properties**: The administration's proposal establishes additional requirements for the annual review of assets owned or managed by the State Department's Bureau of Overseas Building Operations.
- **Termination**: The administration's proposal terminates the Board in 12 years. H.R. 1734 terminates the Commission in 6 years.
- **Independent Leasing Authorities**: H.R. 1734 requires that agencies seeking to lease space for the purposes of a public building work through GSA to acquire such space.

General Services Administration and Public Buildings and Assets

The Subcommittee has jurisdiction over all of GSA's real property activity through the Property Act of 1949, the Public Buildings Act of 1959, and the Cooperative Use Act of 1976, now codified in title 40 of the United States Code. The Subcommittee also has jurisdiction over all federal buildings, occupied and improved grounds, as well as leased facilities.

Management Issues

Given the vast real estate holdings of the federal government, poor asset management and missed market opportunities cost taxpayers significant sums of money. For this reason, in 2003, the Government Accountability Office (GAO) placed real property management on its list of "high risk" government activities, where it remains today. GAO conducts biennial reviews on high-risk areas within the Federal government to bring focus to specific areas needing added attention and oversight. Areas are identified as "high" risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or areas that need broad-based transformation to address major economic, efficiency, or effectiveness challenges.

The key reasons the GAO identified federal real property as high risk are:

- excess and underutilized real property,
- deteriorating and aging facilities,
- unreliable property data, and
- over-reliance on costly leasing.¹

Unfortunately, despite executive orders and memoranda issued during two administrations and acts of Congress intended to improve the management of federal real property, these problems persist.² The GAO noted recently in the 2011 High Risk report issued in February 2011 that some progress has been made in some of these areas but that “federal agencies continue to face long-standing problems, such as overreliance on leasing, excess property, and protecting federal facilities.”³

The high risk activities of Federal real property are significant. Considerable amounts of vacant or underperforming assets can translate into significant costs associated with their operation, maintenance, and security. For example, in fiscal year 2009, the federal government spent \$1.7 billion in annual operating costs for underutilized buildings and \$134 million, annually, for excess buildings.⁴

BRAC

The Base Realignment and Closure process was first established by Congress through the Defense Base Closure and Realignment Act of 1988. Its purpose was to create a basic framework for the realignment and disposal of DoD properties. The BRAC process was also intended to establish a fair process of evaluating DoD’s space needs and determining the best space solutions for DoD facilities. Since 1988, there have been five rounds of BRAC, with the most recent commission established in 2005.

The BRAC process first involves DoD collecting data about its facilities and establishing standards and criteria to evaluate those facilities. Applying those standards and criteria, DoD then develops recommendations on base closures and realignments. Those recommendations are sent to the independent BRAC Commission for review. The BRAC Commission is comprised of nine individuals and the President is required to consult with Congress on six of the nine selections. The commission then determines if DoD followed its standards and criteria and reviews the associated data to determine if changes to the recommendations are appropriate. The BRAC Commission may make revisions; however, those revisions are limited in scope. The BRAC Commission then submits its recommendations to the president, who in turn must forward all

¹ See *High Risk Series: Federal Real Property*, U.S. General Accountability Office, GAO-03-122, January 2003.

² See, for example, Executive Order 13327, Federal Real Property Asset Management, signed by President George W. Bush, February 4, 2004; Presidential Memorandum, Disposing of Unneeded Federal Real Estate, signed by President Barack Obama, June 10, 2010; Public Buildings Cooperative Use Act of 1976; Public Law 108-447, Division H, Title IV, Section 412, December 8, 2004 (providing enhanced flexibility to GSA in real property management).

³ *High Risk Series: Managing Federal Real Property*, U.S. General Accountability Office, GAO-11-278, February 2011, p. 58.

⁴ FY2009 Federal Real Property Report, Federal Real Property Council, September 2010, p. 5.

recommendations to Congress or none. If the President disapproves of the BRAC recommendations, BRAC can revise and resubmit to the President. If the President then approves of the revisions the recommendations can be transmitted to Congress. Congress must affirmatively disapprove of the recommendations within a specified period of time and if Congress does not disapprove of the recommendations, the BRAC recommendations are implemented.

Conclusion

The hearing will focus on the specific proposals for establishing a civilian BRAC process.

WITNESSES

Panel 1

The Honorable Daniel I. Werfel
Controller, Office of Management and Budget

The Honorable Patrick F. Kennedy
Under Secretary for Management
U.S. Department of State

Panel 2

The Honorable Anthony J. Principi
Former Secretary, US Department of Veterans Affairs
Chairman, 2005 Defense Base Realignment and Closure Commission

Mr. David Winstead
Former Commissioner, Public Buildings Service
U.S. General Services Administration

Mr. Michael Glosserman
Managing Partner
The JBG Companies

HOW TO STOP SITTING ON OUR ASSETS: A REVIEW OF THE CIVILIAN PROPERTY REALIGNMENT ACT

THURSDAY, MAY 12, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC
BUILDINGS, AND EMERGENCY MANAGEMENT,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:40 a.m., in Room 2167, Rayburn House Office Building, Hon. Jeff Denham (Chairman of the subcommittee) presiding.

Mr. DENHAM. The subcommittee will come to order. First, let me welcome our distinguished witnesses, and thank them for their testimony today. I especially want to thank OMB controller Danny Werfel and Secretary Principi for a second round with our committee.

Last week I introduced H.R. 1734, the Civilian Property Realignment Act, with—that would establish a civilian BRAC-type commission to help shed waste in the management of Federal buildings and properties.

I am also pleased the administration released its proposal last week, along with a list of 14,000 properties already in the disposal process. By OMB's estimates, our proposals could save the taxpayers more than \$15 billion.

But, as discussed in our April hearing, to achieve these savings, any solution must incorporate key principles: to consolidate the footprint of Federal real estate; house more Federal employees and less overall space; reduce our reliance on leased space for long-term requirements; sell or redevelop high-value assets that are underutilized or too valuable for housing Federal employees; and lastly, dispose of surplus property much, much quicker.

I am glad both proposals adopt these principles, and appreciate the discussions we have had with OMB to ensure that we have the right solutions to generate real savings for the taxpayer.

Today the purpose of the hearing is to discuss the specifics of the legislative proposals, and receiving meaningful input from the witnesses. It is important that we get this right, from the get-go. And receiving input from experts and key stakeholders will be critical. For example, the administration provides special consideration for overseas properties in its proposal, and I am pleased Under Secretary Kennedy is here today to provide input on those provisions.

In addition, we know we must expedite the disposal of unneeded properties through streamlining the current process. But at the same time we need to carefully examine how we cut through the red tape to ensure there are no unintended consequences.

I first proposed a civilian BRAC commission at our subcommittee's first hearing in February, and the President has now proposed a commission for the 2012 budget.

It was clear then, as it is now, that just having a fire sale of surplus property in a bad real estate market is not going to generate significant savings for the taxpayer. Instead, redeveloping, consolidating, or selling certain high-value assets can unleash huge cost savings for taxpayers.

For example, it makes less sense for a few hundred Federal workers to be sitting on an underutilized asset that could generate hundreds of millions of dollars if redeveloped and sold. The big question is, will our proposals empower a commission to find these opportunities, and will it have the capability to carry them out?

Unfortunately, I doubt most government agencies would recognize a good real estate opportunity if it stared them in the face. Somehow the commission will need to leverage the expertise and market knowledge of private sector on behalf of the taxpayer, if we are going to achieve real savings. I believe this is an important point, and I hope our witnesses can help us find a way to do it.

We also must ensure this process incorporates the right incentives and tools to maximize the return to taxpayers, and require that agencies not conduct business as usual. That is why a process that includes an independent commission, similar to the BRAC Commission, is needed in this case. Real savings will require a commission to look across government and identify ways to unlock the value in our properties without turf battles and red tape stalling the process.

I believe the potential to save billions of dollars is real. And our challenge is to create a system where that will be happening.

Again, I thank the witnesses for being here today, and I look forward to your recommendations for improving our legislation. I would like to recognize Ranking Member Norton. When she gets here she will have an opening statement, as well. But she has been slightly delayed this morning.

If there are no opening statements from Members this morning, then we will move right into our witnesses here today. Our first panel, the Honorable Daniel Werfel, controller of the Office of Management and Budget, and the Honorable Patrick F. Kennedy, Under Secretary for Management, U.S. Department of State.

I would ask unanimous consent that our witnesses' full statements be included in the record.

[No response.]

Mr. DENHAM. Without objection, so ordered. Since your written testimony has been made part of the record, the subcommittee would request that you limit your oral testimony to 5 minutes. Gentlemen?

TESTIMONY OF HON. DANIEL I. WERFEL, CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET; AND HON. PATRICK F. KENNEDY, UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF STATE

Mr. WERFEL. Thank you, Chairman Denham, Ranking Member Norton, and other members of the subcommittee, for the invitation to discuss how the government can improve its management of Federal real estate inventory by enacting the President's Civilian Property Realignment Act proposal.

In this year's State of the Union Address, the President acknowledged that we cannot win the future with the government of the past. Stated differently, significant improvements in government performance will require significant changes in how we conduct our business.

For too long, the American people's hard-earned tax dollars have been wasted on maintaining empty buildings, and holding on to valuable properties that the government no longer needs. For this reason, the President submitted a bold new proposal to Congress on May 4, 2011, to significantly reduce and realign the Federal real estate inventory by leveraging the model successfully used in the past for Defense properties.

In addition, Chairman Denham introduced H.R. 1734, Civilian Property Realignment Act, which also acknowledges the need to make significant changes in how we do business and manage our inventory.

Both bills would create an independent board that would make recommendations for congressional action to realize savings through reducing property holdings, expediting disposal, reducing operating costs, and assisting agencies in sustainability goals. They both propose using criteria for the best use of property, while considering such issues as homelessness, parks and recreation, historical preservation, and the environment. And they complement one another in the goal to convert unneeded real estate into reductions in the Federal deficit, and adapt the government's real property to 21st-century realities.

Both the President's proposal and Chairman Denham's build off the best practices of a proven approach: the Defense Department's base realignment and closure program to address and overcome recognized barriers of red tape, financial disincentives, and competing stakeholder interests. It is important to note proposals by the Federal Government to vacate or sell real estate will affect numerous stakeholder interests. These competing interests create a powerful disincentive against progress.

Like BRAC, the CPRA board would overcome this challenge by bundling its recommendations as a package that succeed or fail together. Furthermore, like BRAC, Congress would have 45 days to consider the recommendations with no ability to line item veto or reject a property in the package. Instead, Congress' sole option would be either to endorse or reject the package as a whole. Unlike BRAC, the financial proceeds from the sale of properties would not only be used to offset future expenses, but could, in potentially large portions, be applied directly to Federal debt reduction.

The President's 2012 budget includes the initial legislation for standing up this board, and our bill provides a more detailed legis-

lative proposal that builds on the language we included in the budget.

Chairman Denham's H.R. 1734 and the President's legislative proposal both hold the same core values. There are few areas the two bills differ, primarily in the methods of board member appointment, and the review process of the board recommendations. And these should be able to be worked out in a manner that best benefits the public.

The bottom line is we recognize the status quo in our real estate inventory is particularly unacceptable today, when we have a pressing need to reign in our spending and reduce our deficits. We desire to answer the President's call for action, and we cannot achieve these important goals using the same techniques that have been failing us for decades. By using the best practices from the BRAC model to address the issue, we can leverage our portfolio to improve services to the taxpayer, reduce the government's energy footprint, and reduce the deficit.

We look forward to working together to help pass this bill, and include agencies like the State Department and GSA to leverage best practices and bring about a transformation of our real property management. We believe the President's proposal and the recently introduced bill sponsored by Congressman Denham share common objectives and leverage similar tools in approaching significant savings and efficiencies in our real estate portfolio.

We look forward to working with this subcommittee to finalize the legislation and begin our important work ahead. Thank you for inviting me to testify today. I look forward to answering your questions.

Mr. DENHAM. Thank you, Mr. Werfel.

At this time, Under Secretary Kennedy, you may proceed.

Mr. KENNEDY. Mr. Chairman, Ranking Member Norton, thank you very much for inviting me to discuss the State Department's overseas real estate program. As Under Secretary for Management, I oversee support for the United States worldwide diplomatic and consular presence, including the Bureau of Overseas Buildings Operations, which directs the worldwide real property program for all United States Government agencies overseas, under our ambassadors. It is our mission to provide secure, safe, functional, well-maintained and cost-efficient facilities to promote U.S. national interests, worldwide.

State's real property portfolio includes nearly 18,000 owned and leased properties in over 260 cities. With Congress, we set priorities for construction, acquisition, maintenance and sale of properties, and the use of sales proceeds.

Since 1997, State has been reporting to Congress quarterly on our acquisitions and disposals. We provide facilities overseas for over 30 agencies, ranging from Defense and Commerce to Justice and Homeland Security. These agencies implement U.S. foreign policy, serve our national security, protect U.S. citizens abroad, secure our borders, advance U.S. trade, and combat terrorism.

We operate under the Foreign Service Buildings Act of 1926. And since an amendment in 1945, State has been allowed to retain proceeds from property sales, and we have successfully been using these proceeds to buy properties to replace costly leases. Our abil-

ity to retain and reinvest our sales proceeds has been the consistent funding source for property management, and reducing the need for appropriated funds.

In the last 10 years, our ongoing efforts have resulted in the sale of 195 properties. This authority makes us highly motivated to identify and dispose of properties. The proposed Civilian Property Realignment Act would codify many practices that State has been following for years.

Mr. Chairman, on May 5th you outlined the CPRA's goals, and State is proud to note that we are already implementing them. I have provided written examples in my testimony, so I will simply summarize the highlights.

Since our 2 African embassies were bombed in 1998, we replaced numerous unsecure diplomatic properties, completing 79 new facilities with another 33 under design and construction. The Secure Embassy Construction and Counterterrorism Act requires that we move all U.S. Government staff at a new embassy into one compound. Thus we gain both safe and secure compounds and consolidate our footprint, often giving up five or six separate buildings.

To maximize our building utilization, our space planners assist embassies to use every possible square foot. We consolidate server rooms and warehouses. We use floor plate designs to install smaller cubicles for surge capacity, rather than building larger facilities. Our owned and leased properties—almost 99 percent—are classified as either fully utilized or overutilized.

State's unique ability to keep and utilize sales proceeds reduces our reliance on costly leased space, and we constantly seek favorable opportunities to reach our goal of owning 40 percent of our housing. From 2004 through 2010, the State Department purchased, with proceeds of sale, 265 properties, and reduced our annual rental by at least \$11.2 million.

In essence, State manages 275 field offices around the world, and we strive to reduce overlap in costs. We continually seek to reduce operating and maintenance costs, and increase security through design excellence, value engineering, and green construction. Our value engineering program has a return of investment of over \$47 for every \$1 spent.

In line with President Obama's June 2010 memorandum, State developed its real property cost savings and innovation plan, and State has already achieved nearly 30 percent of its overall goal for the end of 2012. To facilitate the disposal of unneeded properties, an ambassador must file an annual certification that the embassy's property inventory data is correct, to identify any potential excess space.

Presently, we have 76 U.S. Government-owned properties considered for disposal. The administration draft proposal included a section on diplomatic properties that reflects the unique nature of overseas property management. Foreign governments have a right to approve or disapprove of the sale of diplomatic properties, a right we also invoke in the United States with foreign government properties here. It also allows the Secretary of State to remove any transaction from the board's recommendation that involves a civilian overseas real property owned or managed by State.

The Department must have the maximum ability to negotiate with host governments to vacate properties where local conditions have changed, and to acquire new properties to carry out our national security interests. Overseeing the State Department's overseas properties in the same manner as domestic Federal properties is not possible, given the very different conditions that prevail overseas, and would hinder the reinvestment of proceeds at favorable rates.

In conclusion, Mr. Chairman, I believe that State has effectively managed and implemented its overseas property activities for years. The retention of sales proceeds is key. Retaining 100 percent of sales proceeds allows us to purchase properties, to address pressing operational needs, and to reduce our reliance on costly leaseholds. It also allows us to reduce our request for appropriated funding.

We are very conscious of the interest in effective property management by both the Congress and the administration, and we will strive to continue our efforts working with you to ensure effective and results-oriented asset management. Thank you very much, sir.

Mr. DENHAM. Thank you, Mr. Kennedy. I would just like to remind our witnesses and Members, because of shortness of time today we will be going very, very quickly. We would ask you to keep your answers concise, so that we can stick to the 5-minute rule. We would like to get a couple rounds of questioning. We have certainly got a number of questions today.

Before we open up the first round of questions, I would like to now recognize Ranking Member Norton from the District of Columbia for 5 minutes to make any opening statement she may have.

Ms. NORTON. Thank you very much, Mr. Chairman. I apologize that I have been in a hearing involving the District of Columbia, which accounts for my tardiness. And I want to thank you for today's hearing on two legislative proposals to create a civilian property realignment commission that would function like the Department of Defense base closure and realignment commission, or the BRAC.

On May 4, 2011, both the administration and Chairman Denham released legislative proposals to apply a BRAC-like process to civilian properties. Both proposals, which share the title, The Civilian Property Alignment Act, would establish a framework through which a commission would independently review Federal properties and make recommendations for consolidation, collocations, redevelopment, disposal, or other actions, to minimize costs and produce savings for the taxpayer.

We cannot know without a rigorous inventory and analysis, whether the Federal Government is really sitting on billions of dollars of underutilized properties for which there is a market. However, the independent commission, as proposed by both the President's bill and Chairman Denham's bill, tasked with gathering information about real estate holdings of the government, can provide the objective information necessary to make prudent recommendations, and to right-size the Federal real estate footprint.

The strength of both legislative proposals is that they follow the successful BRAC model. However, unlike the chairman's bill, the administration's bill contains more environmental protections than

found in BRAC by including a full environmental review for proposed actions, and has criteria for appropriate evaluation of properties to see whether a property is eligible or potentially eligible for a historic designation, and to determine remediation needs of the property.

We are obligated to ensure that final legislation offers the proper protection for the stakeholders in the disposal of property, while expediting the process for its disposition. The stakeholders include homeless, housing providers, and municipalities eligible for public benefit conveyances, groups that are normally part of the Federal property disposal process.

The chairman's bill, but not the administration's bill, has one of my priorities. For years, the Office of Management and Budget has held on to the General Services Administration's real estate because of the absence of OMB staff with practical and real estate expertise.

The chairman's bill recognizes the accumulated experience and institutional knowledge of the GSA to make prudent real estate decisions, and gives GSA, in consultation with OMB, a significant role in ensuring that the data from all of the 23 landholding agencies is available to the commission.

I look forward to the testimony of today's witnesses to help evaluate some of the other key distinctions between the two proposals, including the inclusion of properties controlled by the U.S. Postal Service and State Department, Senate appointments for commission members, and the process for the consideration of public buildings for housing for the homeless and public conveyances.

The Denham and Obama proposals offer a genuine opportunity for a bipartisan solution. Mindful that it is not enough to pass bills in the House, I want to work closely with the chairman on the final bill. I support the concepts contained in the administration's and Chairman Denham's proposals, and hope we can proceed quickly to get the bill passed and signed into law.

And thank you for your indulgence, Mr. Chairman.

Mr. DENHAM. Thank you, Ranking Member Norton. Let's start off the round of questioning.

First, Mr. Werfel, at our April hearing we agreed that it is critical that key principles are followed to ensure the highest return to the taxpayer. Again, these principles are: consolidate the footprint of Federal real estate; house more Federal employees in less overall space; reduce our reliance on costly leased space; sell or redevelop high-value assets that are underutilized or too valuable for housing Federal employees; and dispose of surplus property quickly.

We both had an agreement on that. As well, you suggested at the hearing adding achieving sustainable goals, which we have included in H.R. 1734. Do you believe that all of these principles are being addressed in the bill?

Mr. WERFEL. Yes, I do.

Mr. DENHAM. Thank you. Last week, the administration released the list of 14,000 excess properties that are going through the disposal process. I think that is a fantastic first step. However, as you and I have discussed many times, and highlighted at our previous hearing, the major savings will come from not excess properties,

but high-value properties through sales, consolidations, redevelopment, and cost avoidance, the real big ticket items.

And I wanted you to just elaborate on OMB's opinion on where the most cost savings will be realized in the process.

Mr. WERFEL. Thank you, Chairman. Yes, the—we released the 14,000 excess assets publicly and made them transparent for two reasons. One, we wanted to make sure that the public is holding us accountable for getting those assets off our inventory in good speed. Secondly, we wanted to make sure that the public can help us identify assets that are not on that list that should be.

And, as you mentioned, we believe that the 14,000 assets represent progress, but incremental progress. And there are more transformational and larger opportunities for savings that exist beyond those 14,000 assets. But today's process, both legal and regulatory, financial and political, have not enabled us to tap into those higher value opportunities and get them on our excess list. Our bill is designed to do that.

So, if we are successful, that list should grow. It might not grow exponentially. But in terms of value proposition, it should grow exponentially.

Mr. DENHAM. Thank you. And, as private individuals or private companies start showing the different properties that are in their communities, we would work together to add those to the list and put those in front of the commission, as well?

Mr. WERFEL. Absolutely.

Mr. DENHAM. As you know, bills are scored by OMB and CBO, and that can be a critical part of the process in moving legislation. How do you believe the proposal will be scored? And can you explain how you get to the conclusion on what the monetary value will be?

Mr. WERFEL. Thank you, Chairman. I do believe that CBO and OMB can come to an agreement and an aligned view on this scoring. There is some work to be done, and we have already started those discussions.

The key is whether—as I understand the scoring rules and, in particular, CBO's perspective—the key is whether the bill is viewed as changing the trajectory of current behavior. If the belief is that the opportunities can be tapped or realized under existing authorities, then the bill is likely to be scored low, or have no effect. If the conclusion is reached that this new legal framework greatly expands the amount of opportunities that are now available and can be realized, then the bill would have more of a significant score.

As part of my presentation to CBO, I would point to the BRAC process, and the experience with BRAC. There you have a clear historical evidence that a creation of an independent board or commission that can be empowered to bundle together different opportunities that have been held up by a variety of different barriers for years and put those together before Congress for up or down vote can dramatically change the trajectory of our real estate inventory, in terms of downsizing and in terms of savings.

So, with that backdrop of BRAC as an experience, and the fact that we are adopting a similar framework of creating that independent commission, I think the environment is there for a—the score from CBO and OMB to be aligned.

But again, we have work to do in order to demonstrate the list of properties, the opportunities that are there. We are going to start that work with CBO and already have, and I hope to be successful in reaching a joint conclusion on scoring.

Mr. DENHAM. And a big part of CBO's scoring is not only how much you can sell, but how quickly you can sell it. And so, how long do you think it will take to implement the commission and really start selling a lot of these different properties?

Mr. WERFEL. It is a difficult question to answer, because embodied in our proposal is the board's independence in how they carry out those activities. But I will offer that I think we—the way the bill is structured, we have given the board the right set of tools, such that they can make sure that they are moving out on some quicker win opportunities in order to start to generate proceeds earlier.

So, what I anticipate, and what we're working towards now, is making sure that when the board is created, that they can hit the ground running with a set of analytics and opportunities and suggestions that we can submit, both this committee and the administration. Of course, the board will have the independence to decide what it does with that set of recommendations.

But I would hope that, within that suite of recommendations, they look for those early success points where there are high-value assets with minimal environmental issues today, and where the competing stakeholder interests—where there is a clear path for a decision that can be made that is optimal, and start this process so that savings start getting generated as early as possible.

I think if they take it and say, "All right, let's say we have 20 or 30 opportunities, let's go for them all at once," that could create a longer timeframe by which proceeds are generated.

So, our recommendation to them—and again, it will have to defer and see how they want to approach it—is to take a risk management approach in a way that says, "Where can we start with some quick wins, in order to start generating some momentum, some success, and some proceeds."

Mr. DENHAM. Thank you. And as we start our round of questioning, before we do, I would ask unanimous consent that Mr. Lankford of Oklahoma, who is a member of the Transportation and Infrastructure Committee, be permitted to participate in today's subcommittee hearing.

[No response.]

Mr. DENHAM. Without objection, so ordered. At this time the chair will recognize Ranking Member Norton for 5 minutes.

Ms. NORTON. I am—they do not seem to be—there does not seem to be a great deal of difference between the chairman's bill and the administration's bill, so I am trying to understand what those are. He says, you know, "It is bipartisan." What should I expect, I guess, especially in this Congress.

I noted that the administration's bill has the NEPA, the National Environmental Policy Act. And the chairman's bill contains a waiver of NEPA for the selection process only. I guess that is the first stage. So why is it that the administration believes that the commission or the Federal agency action stage should be exempt from environmental review?

Mr. WERFEL. I think the—what we did when we sat down to write our bill is we worked very closely with the administration's environmental experts, whether they be from the council of environmental quality, or the EPA, or the Energy Department, and we talked to those that have implemented BRAC over the years.

And we determined that the key improvement that is necessary in order to drive a more facilitated and optimized process was some of the early transfer authorities that exist within the superfund legislation, that the NEPA reviews themselves and the superfund requirements would not—which serve enormously important environmental public policy objectives—can still do that without slowing our process down, as long as we can leverage effectively existing flexibilities in the law today to do so.

So, when we sat down, my bottom line answer, Congresswoman, is we determined that the key was, can we do early transfers of properties to non-Federal entities while still meeting environmental requirements? The answer is that happens today under current law. It doesn't happen in every case, but it does happen today. And we wanted to make sure we could tap into that.

All other issues we felt could be resolved within the current environmental rules and regulations, and so we adopted them. Because, again, we think they have enormously important public policy objectives.

Ms. NORTON. Thank you. Now, the long-term leases that the GSA uses now, as a requirement of this committee, both administrations have always had GSA pursue a purchase option in the lease. We don't use them often enough, there are scoring problems, but it is in there.

Because of the terrific loss to the Federal building fund of continuing to lease at the level we do—and loss to the taxpayers, for that matter—do you think it would be prudent to use the revenue, or some of the revenue generated from this new board to exercise that purchase option, where we are renting space, for example, renting the headquarters of the Department of Transportation, which essentially, we built?

And at the same time, of course, the funds that—or the rents that now go to the lessor would go to the Federal building fund, which is in dire need of funds. How would you answer that question?

Mr. WERFEL. I would answer it in the affirmative, Congresswoman. From my perspective, I want the board to maximize savings and efficiencies for the taxpayer. And if in their judgment, in their wisdom, they believe that an inefficiency can be avoided by using those funds to do a purchase to avoid a long-term lease arrangement, then they should be empowered to do so.

The challenge will be that there is going to be a lot of opportunities to avoid efficiencies—to avoid inefficiencies. And they are going to have to sequence their efforts in a way that maximizes the return on investment. But if one presents itself that allows a purchase to avoid a costly lease, absolutely.

Ms. NORTON. Let me ask you a final question about the Postal Service. I am on another committee that has jurisdiction over that giant operation. And I am interested in the order of magnitude of postal properties that might be involved. This is the oldest—used

to be—Federal agency. Of course it is not Federal any more. But we have those properties.

What type of field offices, for example, would you envision being collocated? Another efficiency that might occur, as a result of this process. And would you need authority, new authority, in order to pursue this type of collocation, or, for that matter, to deal with Postal Service properties?

Mr. WERFEL. Well, I start with the premise, Congresswoman, that we have—separate from the post office, but in the Federal Government elsewhere—we have too many field offices. In multiple cases we have agencies that have an office in every county in America, which is reflective of the way in which benefits and services were delivered decades ago, or before the Internet era.

And so, the question that we have had, and that we have been unable to do under the current legal, political, and financial situation, is to downsize that footprint.

And so, in downsizing it, it seems very logical and intuitive that the presence of post offices in these same geographies can present a collocation opportunity. The way our bill and our proposal is structured is that the board would go at it from the perspective of looking at agencies, whether it is USDA or Social Security or EPA or law enforcement, looking at these field offices and saying, “Are there collocation opportunities that can exist with the post office footprint that is there,” and raising those as an issue.

But I do not think it is a one-for-one situation. I do not think that, if we have approximately 3,100 counties in America, I don’t anticipate that the board would say, “OK, we need 3,100 postal opportunities for collocation,” because I believe first downsizing may be appropriate. Because I don’t know that we need an office in every county in America, based on the way benefits are delivered.

Once you downsize—let’s say you downsize 5 percent. You might be able to downsize even further by collocating. So you downsize the actual presence by 5 percent, and you downsize an additional 5 percent by collocating into post offices.

I think the board is going to have to determine what that stress point is. How much can we downsize without affecting the operations of these organizations, and how much can the postal service absorb? I am not sure I can give you a number right now, I just know that it is not every post office in America. It is something much smaller than that.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. DENHAM. Thank you. The chair now recognizes Mr. Hultgren for 5 minutes.

Mr. HULTGREN. Thank you so much, Mr. Chairman. Just a couple questions. Mr. Werfel, if I can address these to you, that would be wonderful.

I know that it is an incredible challenge for GSA to bring everything together, just realizing that data is collected from over 30 different Federal agencies. Trying to coordinate all of that, bringing that together. But I also know that in the past GAO has been criticized for unreliable and limited usefulness of the data that they have.

I just wanted to ask quickly of the current status of the official Federal real property inventory. And then, specifically to that, won-

dering if there is—with that inventory, if it is geo-referenced. In other words, does it have mapping or geospatial components to it?

Mr. WERFEL. On your first question, like any new start in the Federal Government to collect comprehensive information on something, we go through the growing pains of data quality, completeness, and reliability issues. And it is no different with the real property profile. We are taking measures to improve its reliability.

And I will note that when this committee, this subcommittee, held a hearing in early April, GAO testified. And in their written testimony they pointed specifically to improvements in the reliability of the data in the real property profile. We are continuing to look at ways of improving that reliability, and to get into your second question, to enhance the granularity.

The data that we have, we have several data elements associated with location, including longitude and latitude, and we have the ability, therefore, to enable—if the investment is made, and if there is a business need, to enable geospatial technologies that can support our inventory and review. But some of those investments haven't been made yet, but we are positioned well, because the data that we collect can enable that type of technology to take hold.

Mr. HULTGREN. As far as some of the mapping, then, is that—that will be part of this, as well, of mapping properties?

Mr. WERFEL. Absolutely. I mean I think one of the things that hasn't happened, as an example, that I think should—and I think the board can do it, and we are going to try to do some of this work preliminarily to get the board ready—is taking a city center, whether it be Dallas-Fort Worth or the Bay Area San Francisco-Oakland, or Miami-Dade County, looking at a city and saying, "What is the Federal footprint in that city, across agencies, and what administrative buildings do we have, hospitals, warehouses, office buildings?"

And when you start breaking down those agency-by-agency barriers, which I don't think we have done an effective job of, historically, more realignment and right-sizing opportunities are going to be at play. And I think mapping is going to be critical to enabling that type of analytics.

Mr. HULTGREN. Yes, I agree with that, and I do think, you know, the advancements that we have seen enable that to be done in a way that never could have been done in the past, really. So I hope that we do that.

I do commend Chairman Denham, too, and his work, and the bill that is coming together, and just the cooperation that is coming with the administration, as well, so I am grateful for that.

I do, as I look past—and being one of the new freshmen here—seeing so many inefficiencies of the past, and still some inefficiencies continuing. I was reminded of testimony back in 2005 from Secretary Gale Norton—then Interior Secretary—before the House Interior Appropriations Subcommittee. And Secretary Norton said, "The Department currently uses 26 different financial management systems and over 100 different property systems. Employees must enter procurement transactions multiple times in different systems, so that the data are captured in real property inventories, financial systems, and acquisition systems. This fractured approach is both costly and burdensome to manage."

I guess with that, the question is, you know, certainly you are aware of that. But steps that are being taken, you know, how many property inventories does the Federal Government currently have? What are some of the steps that are being done to coordinate this? I know this is the first step today, but just want to kind of get maybe more of a statement, but also ask you of—is there hope of where we are going, and coordinating this, bringing this somewhat together so that we don't have this redundancy and, really, inability to know even what is there?

Mr. WERFEL. You have raised, Congressman, a question that is certainly near and dear to my heart, and to some of the other related missions that OMB has around overseeing and ensuring agency investment in their system solution to support their mission operations, whether they be financial management or facilities management, that those investments are smart and at the right cost and at the right risk.

And so, we have efforts underway that, I think, parallel these efforts to look for efficiencies in the way we invest in technologies. And I certainly can provide that information for you and give you an update in a separate setting. We are making progress, but it is another huge area of inefficiency, the way in which we invest in systems. But I am confident that some of the steps the administration is taking on that front are having an impact.

Mr. HULTGREN. Well, that would be great. I would be very interested in getting that information.

And if it is all right with you, I have got a couple other questions. My time is limited, so if I can forward that to your office and any information you can get us would be wonderful. I do think it is so important for us to address this inefficiency. And especially with the technological advancements that are out there, where we really are capable, like we have never been capable, to coordinate this in a new way. So I look forward to working with you on that.

And again, I thank the chairman for his work and this important first step that we are taking today and these next days. Thank you.

Mr. DENHAM. Thank you, Mr. Hultgren. The chair now recognizes Ms. Edwards for 5 minutes.

Ms. EDWARDS. Thank you, Mr. Chairman, and thank you, gentlemen, for your testimony. I am actually glad to see OMB here today, since I have been trying to meet with you all for months now. So it would be good to ask you a couple of questions.

Mr. Werfel, I am a little curious. When I look, for example, there are 243 of the properties that you have actually already identified as excess and underutilized properties for consideration. And I am wondering how—if you have come up with a pre-identified list, I understand that you have already plotted about 7,000 or 14,000—how the BRAC process can operate independently to make a judgment about which of the 14,000 properties really should fall under consideration, because it seems like you are kind of scripting what the end product would be.

Mr. WERFEL. That is a very good question, Congresswoman. The way I would offer to you to think about it is that on our current course and speed, the way we operate today under current legal and regulatory frameworks, we do have the ability to move assets off our books, to sell them, to dispose of them. And that process has

been going on for decades. And the excess asset portfolio that we have today represents where we are in 2011, in terms of our excess footprint.

What we are recognizing here—and as we work with each agency to figure out, “Is this all you have, is this—are there other excess assets that can be on the list that are not,” what we realized is that there are more transformational opportunities within almost every agency’s inventory that are not currently moving towards that transformation to achieve that savings.

And there are reasons why. The most powerful of them are the competing stakeholder interests that prevent an agency from moving forward, because that asset, or that series of assets, would raise all types of issues, whether it be from a Member of Congress, whether it be from a higher-up within a given administration, whether it be a union issue, or otherwise.

Ms. EDWARDS. I understand that, and thank you for the clarification, because I am just concerned, though, that if you have already got a list, then you run the risk that when a so-called independent process is set up, that they begin with that, as opposed to looking at the entire—the list in its entirety. But I will leave that to you all to try to figure out.

I have another question regarding how you make determinations about the relative value or not of a property. For example, how do you assess a property that might go to use as a homeless facility or some other public benefit facility, versus something else, and what the value is and jurisdiction?

So, for example, if there is a warehouse in Prince George’s County, how do you value the—a public benefit for that, versus a warehouse in the District of Columbia or Montgomery County or Northern Virginia? Because my experience—and you can correct me if I am wrong—is that, at least for the Washington metropolitan region, OMB has a history of valuing those jurisdictions very, very differently. And so it would be unfortunate if, yet again in this process, say a Prince George’s County or Montgomery County were to fall to the same limitations that have befallen Maryland and those counties in the leasing process in which GSA leases properties in the metropolitan Washington area. Do you have a response to that?

Mr. WERFEL. I do. I have several. First, as a premise, I think one of the benefits of both the President’s bill and Chairman Denham’s bill is it brings more assets into the fray, in terms of potential availability for public benefit conveyance. On our current trajectory, we are not producing as many assets as we could that could potentially be used for the benefit of either the homeless or a local education institution or a local government. And so, goal one is increase the number of assets that are available.

My second response is that today it is just an enormously complex environment, because you have, you know, approximately 13 different vettings that these properties have to go through for a variety of different reasons. And it is not a very cohesive decision-making process that takes place over—when you start looking across the inventory. Why a certain asset didn’t end up with this legitimate stakeholder interest versus that one can be difficult to

kind of weave a common story through, because of how complex and case-by-case it is.

What the proposal that we are—and, oh, by the way, that complexity lengthens the time that these back-and-forths go, and the assets sit on our books for longer and longer.

The benefit of the BRAC model, I think, is that it drives a decision. It listens to all those stakeholder interests in a collective way, and it says, “Based on a broader set of interests, including the community itself, the larger taxpayer, the deficit, the mission of the organization, here is the decision that we are coming to.” And those decisions tend, in a BRAC environment, to be driven more quickly on a larger set of assets than they do when we do it asset by asset.

Ms. EDWARDS. OK. My time has expired, and so I would just say, one, thank you, Mr. Chairman, for bringing this forward, following our meetings earlier in the year, but also just to caution OMB that there were problems that were—that resulted to local communities in terms of the costs that they had to incur when BRAC happened. And I hope that we are taking into consideration that we wouldn’t be putting on more burden to local communities with the transfer of these assets.

And that would be something that we would look for, having learned that lesson, particularly around transportation infrastructure, where the BRAC process was concerned with Defense facilities.

And with that, Mr. Chairman, thank you very much.

Mr. DENHAM. Thank you, Ms. Edwards. The chair now recognizes Mr. Barletta for 5 minutes.

Mr. BARLETTA. Thank you. Mr. Werfel, I am encouraged that the administration and our subcommittee, through Chairman Denham, have made major strides towards achieving real savings for the American people.

One difference in the proposal relates to when the commission terminates. Our legislation terminates the commission in 6 years, and the administration does so in 12. What are your thoughts about the termination date of the commission, and what would the benefit be of having a longer period of time?

Mr. WERFEL. You know, again, I think there are some elements of the bill where it is just different on the how and the means, but the ends are the same. And I think, as a general principle, we are open to any suggestion for the how. And so, if in Congress’ wisdom a shorter-termed board is the way to go, I don’t think we would have a major objection.

What I would offer is that, if you look at the BRAC process, which has saved a lot of money—in fact, just looking at the numbers we have today it is expected to save \$80 billion over the next 20 years, or about a \$4 billion-a-year run, which is much higher than we see on the civilian side—it takes a long time. And, there has—you know, BRAC has been in place since around 1980, and there are still activities underway that have a positive return on investment, and still a need for that type of framework, to make sure that our opportunities don’t get grinded by the current process that we are in.

So, I would argue for a longer leash, in terms of allowing the board—I think they should be driven to start generating savings

early and often, but I also think that, as we churn forward in our inventory, that additional opportunities are going to emerge, and I think we are going to find that this independent process is the real kind of turnkey towards getting past what we have been involved in.

Of course, we could go with 6 years and then Congress can revisit whether to reauthorize, based on the performance of the board over the first 6 years. I think there is a lot of different models here, and we are open to discussing the best one.

Mr. BARLETTA. Thank you. Ambassador Kennedy, thank you for sharing the State Department's successes abroad. Disposing of properties in foreign countries is likely to have some unique challenges. Can you give us examples of how the sale or disposal of overseas properties may be similar or different from domestic properties?

Mr. KENNEDY. Yes. Thank you very much, sir. The basic issue that we face has two components.

The first is that in many countries in the world there is not a free market, as we have in the United States. One can buy property in the United States, essentially subject to only zoning regulations and the availability of funds. This is not the case overseas; many nations do not have a public sector, as we have. The only entity from whom you can buy or sell property is the national government, or parastatal elements thereof. And so, being forced to buy or sell to that entity carries with it a very great different number of burdens, and potentially some opportunities.

The second is legal requirements in foreign countries. Foreign governments, as does the United States, under the Foreign Mission Act that the Congress helped the State Department enact, requires us to reach or achieve permissions from a foreign government to buy or sell a piece of property. So, those are basically the structural issues we face.

Other issues that the State Department faces is that State Department properties overseas, as you can imagine, are very, very special properties, having physical security requirements, technical security requirements, communications security requirements. And all those have to be factored in.

So, we fully support both the administration's proposal and the intent of the chairman's legislation. And these are practices that we have been engaged in for many years. We wish to continue, we want to be a full participant with OMB and the Congress in going forward.

My major effort here today is to outline why the operations are slightly different, not in terms of the goals we wish to achieve, having the most cost-efficient property utilization in the world, but just that overseas conditions are radically different from domestic conditions in the United States, and we wish to achieve the goals in the right way.

Mr. BARLETTA. Thank you. And I am happy to see the cooperation. Thank you, Mr. Chairman. I yield back.

Mr. DENHAM. Thank you, Mr. Barletta. A lot has been talked about as we move forward on this bill. Obviously, new properties, new agencies, new opportunities are coming up. And one of those is the overseas properties.

How much money do you think can be saved from the overseas properties, Mr. Kennedy? And you have touched on some of the challenges you think that we may have, but we are going to have challenges in every different agency. I mean there are some uniquenesses in other agencies. So I am mostly concerned about what type of savings you think we can see from the overseas properties.

Mr. KENNEDY. Well, Mr. Chairman, we have identified, as part of our ongoing efforts, we have identified over 76 properties, and we are now looking at each one of those in terms of its marketability—can I achieve host government approval to sell it? What is the market in that country at this time? And, therefore, we will be—as I said—working those right now to achieve a complete list.

I guess, as the benchmark, if I might, we have been able to sell properties over the last few years. And with those properties that we have sold, we have taken the proceeds, invested them in purchasing for the United States Government overseas 265 additional properties, replacement properties. And that has saved us annually over \$11 million in rent.

For a budget the size of the State Department's operating budget, that is a significant savings. And so, what we do every year, every day, is look at our property assets overseas, identify those that are underutilized, that are potentially, as you well outlined, the opportunity to sell a high-value property.

One of the activities we are engaged in now is we have three aging properties in central London. It will take us hundreds of millions of dollars to upgrade those properties, because they are over 50 years old, to replace the heating, to replace the air conditioning, to replace the wiring, to make them fire safe. And even then, because of their locations, we are not going to have them secure, because of the proximity to the streets in central London.

We are working through a process now in which we believe that we can sell those three properties in central London, and with those proceeds of sale build an entirely new embassy in London at no cost to the taxpayer. So that is another example of what we try to do.

And going to one of the very good points you have made in your 5th of May statement is taking a high-value property, and see if we can get, literally, the highest and best use for it. And, in the case of London, it is to sell the property, and we get an entirely new embassy facility at, literally, no cost.

Mr. DENHAM. Do you have concerns of being included into this bill?

Mr. KENNEDY. I believe, sir, that since we meet the conditions that you have already outlined, I have no problem being within the bill.

But I believe that there has to be a legislative acknowledgment of the special needs and requirements that I was outlining to Mr. Barletta that we have to do, both in terms of what is the market and the legal structures overseas, and what are the national security implications of real estate overseas, which, as I noted in my statement—when you say “the American Embassy,” that is not just the home of the State Department, it is the home of every U.S. Government agency operating in a civilian way overseas, and that

we are, in effect, the consolidated field offices that you referred to in your May 5th statement and Controller Werfel referred to in his.

Mr. DENHAM. Thank you. And, Mr. Werfel, you know, one of the things that critics continue to talk about is this whole fire sale. We are going to go out there and do this fire sale on all these properties.

And, first of all, I just don't think that that is a fair interpretation of what this bill's goals are, or what we plan on doing in the future. You know, we think that there are opportunities, again, to sell these high-dollar properties.

But how do we ensure that Federal agencies evaluate all of the options when they are reviewing properties on, you know, some of the things that Mr. Kennedy is talking about, and making sure that we are still meeting the needs of the American people, at the same time being able to consolidate our footprint and sell off the things that we just don't need, or outlive their usefulness.

Again, our goal that we have talked about is not selling properties on a down market, but actually selling the unique properties that we just shouldn't have in our inventory.

Mr. WERFEL. Yes, I think you have to be strategic. And there are—you know, the real estate market across the country is different in different locations. And some of the high-value assets that we believe we have are in areas of urban locations where the markets are still robust, and where a good deal can be made on behalf of the taxpayer. And you certainly don't want to leave those on the table.

At the same time, you have to recognize that there may be better approaches to protect the taxpayer interest than just, you know, fire-sale'ing assets into a soft market. This is not easy stuff, and Federal Government is constantly looking for ways to kind of navigate this terrain. I think GSA, and the expertise they bring to the table, and the way in which they serve other agencies plays a critical role there.

But I think I want to transition a bit into the board itself. The—what the board, I think, opens up is two things. First of all, it puts properties that—it tends to be that the higher valued properties in the more choice locations are the tougher ones to get through, politically. And so, the board enables us to tap into those opportunities.

And the other key point is it is because we are tapping into those opportunities, you are freeing up resources that can be reinvested—some of it will go to deficit reduction, a majority—but can be reinvested. And those reinvestments can be used as incentives to agencies to get them more motivated and more thinking strategically about how to make the right decisions. We are just trying to find the right model, the right set of incentives. And right now we are falling short and we are underperforming.

Mr. DENHAM. The chair now recognizes Ranking Member Norton for a second round of questioning.

Ms. NORTON. I only have another question or two. Mr. Werfel, you testified about—in answer to the chairman's last question about fire sales—that you had to be strategic. Well, I notice a difference in the timeline of the two bills. The President's bill would have the board operate for 12 years, the chairman's bill for 6 years.

In light of his question on fire sales and—for example, you might not want to sell in the kind of market we are just coming out of—what difference would the timeline of the board make?

Mr. WERFEL. I think it would—it could allow the board to pace itself differently, knowing it has a longer life span.

Again, I think the board's primary challenge—one of its primary challenges—is sequence. And what are the right opportunities to go for first, that are going to optimize the return for the taxpayer?

And with the right set of expertise on the board, they are going to be able to factor in issues such as, well, this market has six or seven properties that would be in our sites for realignment, but why don't we hold back on those properties until the next round, because we believe that it's not the right time, but this market, we do think it is the right timing. And with a longer leash, in terms of the commission's life, I think that it releases some of the pressure on trying to push more in.

At the same time—and these things always have these public policy tensions—I think you would want the board to be evaluated and feel some pressure that its life depends—its future life depends on generating meaningful savings for taxpayers, so they can't sit too long on some of these opportunities.

The bottom line is, can we find that right equilibrium, or that right balance point? I think it is—I think we have probably hit it. It is probably somewhere between 6 and 12 years, which is probably sufficient time to allow them to pace themselves, with also the accountability that, in that timeframe, we want to see, you know, savings in the billions of dollars that were envisioned by the bill.

So, I think we have triangulated the right timeframe, we just have to settle in on what we decide.

Ms. NORTON. Yes, and this board is going to be subject to the same kind of public scrutiny that private sector owners are. If they sell and get underpriced relative to somebody else who looks smarter, then the committee is going to have to wonder, "What were you thinking?" Because that is what they are going to be—there is a comparison out there. It is known as the private sector, and who is getting what for what.

And as you say, the expertise of the commission should allow for that. But we also know what the private sector does. The private sector, for example, in this city has been buying up property for a long time and waiting, waiting, for the time to sell.

And when—to give you kind of a typical example, with the DHS going up in Ward 8, now that is a property that nobody would have thought of selling, or could have sold. But now that the Federal Government is bringing 14,000 employees to a property it owns, but was moribund, property values have begun to rise very substantially. And I can just see the commission being subject to great criticism if it did not show that kind of strategic sense of when to hold and when to sell.

And I thank you very much.

Mr. DENHAM. Just one final question before we go to the final panel. Selling off a number of these properties can generate millions of dollars, as we get these properties back on the tax rolls, generate millions of dollars for local government, too. The challenge is going to be finding a lot of these properties.

The private sector expertise, and their proposals, can help us to generate a lot of those properties that aren't on the list today. How do we inject their expertise and proposals into this process?

Mr. WERFEL. I think the board itself, once it is created, like BRAC, will hold hearings and meetings and sessions on a whole—with a whole host of different interest areas.

And I think the commercial real estate expertise, which I think will be embedded in the board itself, because I think you would pick members with commercial expertise, but they can reach out to broader expertise in commercial real estate.

I mentioned doing regional reviews of things like Dallas-Fort Worth or Miami-Dade or the Bay Area, whatever it happens to be. And in that regard, I would imagine that when they are sitting down, they are meeting with a whole host of stakeholders to understand how this real estate footprint plays out, and where the opportunities are, including commercial real estate experts with specific knowledge of that geography and those issues, as well as community organizers, community developers, the local educational institutions, the mayor. All of this brings together information that helps generate their ultimate recommendation.

The point is none of this is happening in a concerted way today, and it should. And if it does, I think that is where the efficiencies and the savings will materialize.

Mr. DENHAM. And, important from the commercial standpoint but also—you know, one of the things I saw on the State level, when we put this out for the entire public to see, you had some people that wanted to expand their backyard, but you know, the grass had grown up where the government was not taking care of its property, and didn't know that there was a sliver, or a small piece of property, or somebody wanted to expand their parking lot.

I imagine there is also—as we dive into this across the entire Nation, we will find that the private individuals will find some of these properties for us. How would you also accommodate getting this out to every taxpayer, so that they can be aware of this opportunity as well?

Mr. WERFEL. Well, I think transparency is going to be a critical element. It is always a critical element of any management initiative and push. And the challenge with real estate transparency is the security issue. And we just have to make sure that we are cleansing our information that we make public from any kind of national security threat that can be had.

But I think that when—and that is part of the challenge, but it is an overcomeable challenge. And so, when the commission or the board moves into an analytical phase of a given region or a given area, then as part of that they are going to have to make some of the footprint, that I described earlier in response to Congressman Hultgren's questions, available so people can see and understand it and weigh in.

So, I don't know necessarily right now if I know exactly how I would articulate how transparency is going to play out, but I know that it is a critical objective and piece of this.

Mr. DENHAM. Thank you. Thank you for testimony. Your comments have been very insightful in helping out today's discussion. I appreciate both of you coming in today.

We will now call our second panel of witnesses, the Honorable Anthony Principi, former Secretary, U.S. Department of Veterans Affairs, and former chairman of the 2005 Defense Base Realignment and Closure Commission. Also, Mr. David Winstead, former commissioner, Public Buildings Service, U.S. General Services Administration, and Mr. Michael Glosserman, managing partner of The JBG Companies.

I would ask unanimous consent that our witnesses' full statements be included in the record.

[No response.]

Mr. DENHAM. Without objection, so order.

Since your testimony has been part of the record, the subcommittee would request that you limit your oral testimony to 5 minutes.

Thank you. And, Mr. Principi, you may begin.

TESTIMONY OF HON. ANTHONY J. PRINCIPI, FORMER SECRETARY, U.S. DEPARTMENT OF VETERANS AFFAIRS, AND FORMER CHAIRMAN, 2005 BASE REALIGNMENT AND CLOSURE COMMISSION; DAVID L. WINSTEAD, FORMER COMMISSIONER, PUBLIC BUILDINGS SERVICE, U.S. GENERAL SERVICES ADMINISTRATION; AND MICHAEL GLOSSERMAN, MANAGING MEMBER, THE JBG COMPANIES

Mr. PRINCIPI. Thank you, Mr. Chairman. Good morning, Chairman Denham, Ranking Member Holmes Norton, and members of the subcommittee. I welcome your invitation to comment on your introduced legislation, H.R. 1734, the Civilian Property Realignment Act. I commend the President and you, Mr. Chairman, for the introduction of this much-needed legislation, and I certainly commend Ranking Member Norton for her enormous contribution to this effort over the years.

When I appeared before the committee on April 6th I recommended several changes to the administration's proposal to establish a civilian property realignment act. I am gratified to note that a number of those recommendations are included in the bill.

For one, the legislation establishes a commission vice a board, expands the number of members on the commission to nine vice seven, and calls on the President to name individuals to the commission, in consultation with the leadership of the House and Senate, and requires Senate confirmation.

Further, the legislation holds the President, and not the director of the Office of Management and Budget, rightfully accountable for the review and submission of commission recommendations. In my view, these steps will bring greater independence to the commission, and more transparency to the process.

As I indicated at the April 6th hearing, independence and transparency are the sine qua non to the success of this process. This is especially critical in the independent analysis of all Federal properties, whether they are on the list for closure or not. And I say this from my experience as chairman of the 2005 BRAC commission. We considered properties that the Secretary of Defense did not have on the list. And certainly, as Secretary of Veterans Affairs, I was under enormous pressure not to close any facilities, whether they were antiquated or not, that I felt were diverting

much-needed resources to 21st-century health care for our Nation's veterans.

You have requested that I review your legislation and provide additional comments and recommendations. I have very few. Section 11 calls for the establishment of standards and criteria, and outlines 9 principles upon which to develop criteria. It is not clear to me if there is a difference between standards and criteria. And in the absence of term definitions, I would recommend that the term "standards" be defined or deleted.

I applaud the nine principles, and would suggest that they be established in law as the criteria against which Federal agencies and the commission must evaluate each facility for disposition. I cannot overemphasize the importance of criteria, independently established and implemented.

Section 12 outlines the duties of the commission. While the legislative language infers that the commission utilize criteria, it is not clear how the commission would utilize that criteria. In the Base Realignment and Closure Act, the BRAC Commission, in weighing each recommendation submitted by the Secretary of Defense, is required to explicitly state whether the Department significantly deviated from any of the eight criteria, and point out the criteria deviated before making a recommendation. I, therefore, propose that the language in section 12 be tightened to more clearly define the role of criteria in commission deliberations.

Finally, I would suggest again the importance of the accounting of the real savings to taxpayers generated by the entire process. For the 2005 BRAC, the Department utilized an accounting system that estimated savings by realignments of nearly \$48 billion over 20 years. According to the GAO, that saving estimate has now declined to less than \$20 billion, primarily due to vastly underestimated implementation costs. I would highlight that our BRAC was as much about transformation of our military force structure as it was about cost savings.

I would urge that the GAO be required to track and report to the Congress periodically on civilian property realignment cost and savings.

Finally, I note that section 51 provides that implementation of the commission's recommendations are to be undertaken pursuant to existing authorities available to GSA and the Federal agencies. While the legislation mandates that all recommended actions be completed no later than the end of a 6-year period, the legislation leaves the ultimate action an open question.

In order to ensure prompt implementation of the recommended actions and the disposal of such properties in a manner that will generate the most revenue to the government, and in order to avoid fire sale disposals, the legislation should specifically enable the disposing authorities with the ability to enter into ground leases, sale lease-backs, or other arrangements pending ultimate implementation of the commission's recommendation.

As you know very well, the need for swift disposal of non-performing assets was recognized and well-managed during the savings and loan crisis in the late 1980s and early 1990s, with the establishment of the Resolution Trust Corporation, which I believe could be used as a possible model for this commission to dispose

of properties. Their sole purpose was to dispose of properties promptly at a maximum return to the taxpayer. It was a Federal agency that had that only purpose to fulfill.

And finally, with respect to section 20, in order to avoid potential confusion with respect to leasing authorities that some Federal agencies currently possess, I recommend that subsection A be modified, so as to recognize those authorities as not being affected.

And I might just add one point about overseas properties. Believe it or not, the VA owns a property in Paris. I recall, when I was deputy secretary of Veterans Affairs during Bush 41, I was asked by the Congress to take ownership of a building, a magnificent, valuable building in the golden area of Paris, France. It was a building that the American Legion inherited after World War I called the Pershing Hall, named after General Pershing. The government, U.S. Government, finally took possession of the building after bailing out the American Legion, but it fell into a state of disrepair. Monies were being stolen, artifacts were being stolen. And no one seemed to know what to do with this building.

So, the Congress asked if I, the VA, would take possession of it. We did. We closed it down, we cleaned it up. We leased it to a major hotel. It is now Pershing Hall Hotel. All the artifacts are intact. It will always bear the name Pershing Hall, and the VA is receiving income on a long-term lease for that property.

So, I think even overseas it can be done, and done in the right way. Thank you, Mr. Chairman. Thank you, Ranking Member Norton.

Mr. DENHAM. Thank you, Secretary Principi.

Mr. WINSTEAD, you may proceed.

Mr. WINSTEAD. Mr. Chairman, Congresswoman Norton, it is great to be here. I am David Winstead. I am an attorney with Ballard Spahr here in Washington, DC, and I had the pleasure from 2005 through 2008 to be commissioner of public buildings at GSA. So I would like to provide some perspective to you of both that experience, the tools they have, as well as the private sector view, which I had prior to going to GSA, and clearly since.

I would also mention that I chair a committee at the Urban Land Institute which is made up of the—of public sector real estate executives. And part of their objective is to show best case management of real estate, and what to do with surplus, as well as existing fully utilized real estate.

I would like to comment on the bill specifically. I think the Civilian Property Realignment Act, the purpose under section two is very targeted. And I think you are looking at the right issues, in terms of occupancy of space, footprint of building, utilization, vacancy rates. Obviously, looking at underutilization and value of assets is key. And then, looking at redundancy. And obviously, in managing the portfolios of GSA for 3 years, there were cases of redundancy and efforts of the agency to move to limit that and—or to surplus those properties.

I would also mention that during my tenure we did strengthen the disposal process at GSA and staffed up sufficiently to basically shorten the timeframe of being able to deal with surplus properties.

So, I think the intent of this bill is focused on resources and, most importantly, I think giving an independent review of existing

portfolio of owned properties, as well as leased actions. This committee knows well that GSA manages leased properties extremely well, in terms of limiting vacancies to less than 1 percent, and responding to the market if you need to contract in space or expand in space. So, I think that those—you know, that they have done a very good job, in terms of the lease side.

In terms of surplus properties, I do think an independent review of a group like this would be worthwhile. There are certainly assets that we struggled with, like the Old Post Office, that is very much underutilized and is now on the market to look at private sector options there.

On March the 30th, Administrator Johnson did testify about the other things underway which are mentioned in this bill, and that is look at, actually, the workspace solutions for Federal agencies, and to look for the case of DHS consolidation in St. Elizabeths, but at the same time reducing the amount of leased space that they need. Same with the FDA in White Oak, Maryland.

So, H.R. 1734 does, I feel, provide a very valuable public-private partnership and an independent commission to take another very concerted view of these 14,000 assets that Controller Werfel talked about, and savings of \$15 billion as an objective.

I would say, though, that it would help this commission, I think the value it has to GSA and the Federal Government and all landowning agencies on the Federal level, is really managing that competing stakeholder process, which the controller talked about at great length.

There are a couple distinctions I would like to make. One is that, unlike the Public Building Act did vest in GSA a very flexible building authority of a 20-year—up to 20-year ability to lease space. And now, over 50 percent of occupancy of the Federal Government is in leased space. And so, it does have the ability, through terms and contracts, to move space, to terminate space, to react to tenancy consolidation. And I think that does make it a bit unusual, compared to some of the BRAC experiences.

Secondly, I think the Executive Order 13327, which is the—which was established the Federal Real Property Council—I worked on the asset management subcommittee of that—has, in fact, put in place an awful lot of data, much like a private sector real estate REIT creates data on performance of individual assets achieving return on investments of 6 percent, in the case of GSA. That data does exist, and it has been about 7 years now. So I think this commission can avail itself of very accurate current data on existing assets and their utilization.

But looking at packaging a group of assets that would be essentially immune from the politics of local communities, when in fact those assets are underutilized and can return better value by being disposed, I think has a very worthwhile purpose.

Last two things I would mention is that the private sector needs to be very, very involved in this process, not only in terms of the members on the commission, but I would say very much in the implementation of this. I think GSA has those resource, and is the landlord of the Federal Government. But I think the private sector needs to be involved in that disposition process.

I would mention one case, just as an example of what can happen—or two, actually—one, a GSA case, very briefly. There was an asset we had in Baltimore County—this goes back to 2006, 2007—that was valued at about \$20 million. It was a part of—our asset managers and disposal people at GSA worked closely with the host county, Baltimore County, Maryland, who had just master-planned and rezoned that whole area around Martin State Airport, a general aviation airport, and increased because we partnered, because the government partnered in disposing that property with the host county under their zone authority to increase entitlements, increase value, GSA got about \$15 million more in disposing of that property than if they had acted independently without engaging with the host jurisdiction.

And lastly, very recently I was involved in a conveyance by the U.S. Postal Service of a surplus property. And they have a very innovative, very open—more so than even GSA—about ability to look at assets and capture value for, obviously, the post office, which is under operational constraints and fiscal pressures.

And what they did in this regard is, looking at fair market value, three independent appraisers, but then they looked at entitlement value, and they actually had a negotiation session, where they look at both what could it be redeveloped as—a hotel, office building, multifamily residential—were they able to add a component on to fair market value to essentially have a part of the ride that would be created over a number of years in the redevelopment.

So these are the kind of things that are, in fact, happening, and can happen. I think this commission can identify those assets as a group, move them through the process that you have—will establish on the bill.

The last thing I would mention—and Ranking Member Norton has been very involved in this—I would really encourage Congress to look also at the tools that 412 authority gave GSA in the Appropriations Act of 2005, because it did authorize the agency to look at conveyance through sale, lease-back exchange, and other tools that, to this day, we are still constrained under interpretations of the scoring rules. And this might be an opportunity, with the support of OMB that we witnessed earlier—to look at how those tools can be applied to the objectives of this commission, and moving those assets.

So, that would be my last comment, and I would be happy to answer any questions. Thank you.

Mr. DENHAM. Thank you, Mr. Winstead.

Mr. Glosserman, you may proceed.

Mr. GLOSSERMAN. Good morning, Chairman Denham and Ranking Member Norton. The JBG Companies has been an active investor, developer, and manager of commercial real estate properties in and around the Washington, DC, metropolitan area for over 50 years. We have developed, owned, and managed over 30 million square feet of office space, over 15,000 residential units, approximately 4,000 hotel rooms, and over 5.5 million square feet of retail space.

Over the years we have worked extensively with GSA on a number of high-profile projects, including the development of the 1.4 million square-foot Department of Transportation headquarters,

which we still own, and other large leases throughout the city. We are moving forward currently with projects for the National Cancer Institute and the Social Security Administration. We have enjoyed our close, cordial relationship with GSA over the years to create highly efficient projects and leases that meet its requirements for security, energy efficiency, and functionality.

While our experience is predominantly with GSA and the Washington metropolitan area, we believe that the Civilian Property Realignment Act is an important step towards providing additional efficiency for all of the government's real estate portfolio, and will generate significant value for the Federal Government.

Many of the properties in the government's real estate portfolio are in prominent locations on sites with significant excess density, and therefore, untapped value. This act would provide the government with the ability to capture that additional value and reduce costs for taxpayers through the sale, repositioning, or redevelopment of these assets.

Many existing government buildings are highly energy inefficient and demand significant annual maintenance funding to continue their operations. Many of these buildings are in desperate need of capital reinvestment, yet the government lacks the funds to make the necessary capital improvements. The act would provide a path for the government to put its agencies into new or renovated buildings at little or no cost to the taxpayers, given that the government would be able to take advantage of the significant value that already exists in many of its sites.

Put very simply, this act provides a win-win situation for the government and the private real estate investment community. Under the act, the government would be able to transition many of its agencies into new, more energy efficient facilities that require significantly less annual maintenance expenses. The private sector would be able to invest in prominent real estate sites that were previously unavailable.

Depending on the government's need in a particular location, the government could sell or perhaps lease a portion of the existing site to a private investor or developer, and use those proceeds for a newly constructed building on the remaining portion of the site.

The private sector portion of the site could be developed based on highest and best use, to create an improved mix of uses, including office, retail, residential, or hotel, that would support the area. As I noted previously, the untapped value in many of the existing government sites is large enough to cover the cost of constructing a new Federal facility without any net outlay by the government over the payment received for excess density from the private sector. In fact, I believe many of these sites will even produce excess capital that can be returned to the government and used towards debt reduction.

Mr. Winstead mentioned the Old Post Office building. The Old Post Office building has been used in recent history as an office building. This wonderful building has been sitting, underutilized, for almost two decades. During this period, the government has spent more money to operate and bandage the building than it has received in rent from the current Federal occupants. I believe this

has been previously reported of being in the range of a \$5 million loss per year.

Over this period, the building has also been allowed to slowly degrade through the government's inability to appropriate sufficient dollars to undertake the massive recapitalization that was required. Yet this building has significant value to the private sector. If this legislation had been available, this Federal building would have been a prime candidate, returning to the government much-needed funds to reduce the budget deficit or renovate other Federal assets. This bill will pave the way for these kinds of opportunities.

I would like to also add a few suggestions for your consideration. I urge that the commission be empowered to identify opportunities that are outside the scope of what may be recommended by individual agencies. Many undervalued properties or sites with excess density or alternative value-add opportunities are likely to be overlooked by government agencies, which do not possess real estate expertise. Some of these opportunities may, in fact, be identified by the private sector, and the commission should be permitted to work within a framework that encourages and invites the private sector participation.

Second, agencies may need to be incentivized to find real estate opportunities. Consider providing funding resulting from the value created back to the agencies to pay for replacing antiquated facilities or renovating existing facilities.

And last, timing of real estate transaction to maximize value is difficult, at best. The timeframes proposed appear to work for a majority of the transactions that are being considered, especially those involving outright sales. However, many transactions may require substantially longer periods to extract potential value and to maximize value. I would encourage you to consider imposing longer timeframes for certain categories of assets.

Since my time has run out, I am just going to simply conclude by thanking you for inviting me today, and to say that I know that my colleagues in the real estate industry stand ready to assist the Federal Government in any way they can to further the goals of this bill. Thank you.

Mr. DENHAM. Thank you, Mr. Glosserman, for your testimony. And certainly we would agree that we want to invite the private sector's participation.

How do you think that we can identify—how do you think we can maximize the value of the properties, and what are your thoughts on how we get that input from the private sector, and actually invite them to be part of the process?

Mr. GLOSSERMAN. I think if there was a framework that is in place that gives the private sector the confidence that there is a process that is dependable, timely, and that is going to work, what you will find is that the private sector will respond to that, and will come forward with ideas and opportunities that probably the government has not thought about, many of which the agencies or the commission itself simply doesn't know about, but that bubble up.

And Mr. Werfel earlier in his testimony indicated that he thought that there were a number of high-value sites that could go forward, and there should be a strategic approach. I agree with that. I believe that once this process gets started, and the private

sector sees credible evidence that, in fact, there is a process in place that is moving forward, and these transactions are available, and that this relationship is available with the Federal Government, you will see folks coming out of the woodwork to propose ideas.

Mr. DENHAM. Thank you. And ideas not only on the sale, but also on the redevelopment and—

Mr. GLOSSERMAN. Exactly, for—

Mr. DENHAM [continuing]. Best use of the property?

Mr. GLOSSERMAN. For density that could be transferred, density that could be used in a variety of ways, exactly.

Mr. DENHAM. Thank you. Mr. Winstead?

Mr. WINSTEAD. Mr. Chairman, to that question, I think there—and to Michael's point—I think that a lot of these assets could be identified, and there are some—for example, obviously, the Denver Federal Center is one where you have a new transit service with surplus Federal property—it would kick-start, by being able to look at a development profile that a private developer might take through a master planning process.

The incremental building or piece of ground owned by the Federal Government can have huge increase in value, as a result of a master plan approach. So I—and there is no question that this market, over the last 3 years, has seen an enormous increase in hunger by the real estate community, nationwide. I mean 2009 was a devastating year. There has been very little, until recently, financing and speculative real estate development.

So I think the work of this commission would get a lot of focus. The government would get enormous input, in terms of ideas, about that asset, both in terms of the commission's view of it, through the commission members, as well as private sector involvement, in terms of the conclusion.

So, I am very optimistic that this will really generate properties that are no longer needed and increase value enormously, even above fair market value.

Mr. DENHAM. Thank you. And we want to make sure that, as we move forward, we are expediting the process as much as possible, and not seeing any roadblocks.

And, Mr. Winstead, as you know, the Old Post Office building, which we have talked about a great deal in this committee—in fact, it was the first hearing that we had—I mean, that property sat underused for decades. And even after the passage of legislation 3 years ago by Ranking Member Norton, GSA only recently issued an RFP to redevelop the site.

From your experience at GSA, how can we make sure that we are going to have the ability to effectively—that GSA is going to have the ability to effectively implement the recommendations of the commission, and not just go through more roadblocks and hold-ups?

Mr. WINSTEAD. Well, I think—my comment earlier about the need, with recommendations from the commission, to have private sector involvement, that delivery mechanism is key. I know GSA—both at NCR has disposal team at every region. They have four zones around the country of people that—all they do is focus on disposal. But they don't have the resources. They don't have the

market intelligence to do this in an expeditious manner, to really capture market value that might be at hand in 1 year versus a year later, when there could be another recession.

So, I really think that the private sector resources are key to this. And, you know, GSA has been—over the years, is increasingly privatized. It used to be that we had realty specialists at every level. Now the agency has outsourced the brokerage function. So that would definitely be needed. The existing management of GSA and disposal would need to be augmented by private sector support.

Mr. DENHAM. Well, and certainly we want private sector support, we want their involvement, want them to help us identify. My concern is with government itself. I mean here you have had an agency that has sat on a property for decades. You had Ranking Member Norton, that got to the point where she had to pass legislation to get them to actually move on it.

How do we make sure that, you know, we get all of the information in the world, we are ready to go, the commission gives a recommendation, we have an up or down vote in Congress, we vote on it, how do we make sure that it absolutely gets moved quickly, and that we don't just end up with more red tape in the future?

Mr. WINSTEAD. Well, I think this committee certainly has strong oversight responsibilities to ensure that, you know, they are accountable in taking the recommendations and moving out with them quickly.

Obviously, what we heard in the first panel was a commitment from the administration, the President, OMB, to support that. So I think it is benchmarking. I know that when I was there we shortened the disposal process by 100 days. Now you might say that 100 days is a long time, but we did improve it, and we staffed it up to do it quicker.

With this kind of input from a commission, you will even need more support, I believe. The OPO had distinct issues around it. There were current tenancies. The historic advisory council and historic preservation loved the building. There were issues about current tenancy and other issues that kept it from moving as quickly as I would have liked, and others.

Mr. DENHAM. The chair now recognizes Ranking Member Norton.

Ms. NORTON. Thank you very much, Mr. Chairman. I have been looking at both of these bills. And at the moment, I am closer to the chairman's bill, because I have been measuring the bills by how BRAC-like the bill is.

Now, Mr. Principi knows this well. Let me indicate the BRACness notion. DOD has a really clean process. DOD, BRAC, President. That is pretty clear, without a whole lot of bureaucratic back-and-forth, shall we call it.

Now, the chairman tries to bridge the gap by putting OMB and putting GSA in the process, because he recognizes the historic problems OMB has had with real estate matters being not a real estate agency, having little expertise of the kind that is necessary. He puts the OMB and the GSA together to compile the matter, the information. It goes to the board and then to the President.

Now, the administration puts the OMB right in the middle of it. The board, those are the people with the expertise. Then it goes to

the OMB. Those are the people who have shown historically they have almost no expertise. And then, of course, it comes to Congress.

Now, I have got to ask you your view—particularly you, Mr. Principi—of these proposals and how we should view them.

Mr. PRINCIPI. Well, I agree with you—

Ms. NORTON. Particularly with the involvement of OMB.

Mr. PRINCIPI. Yes—

Ms. NORTON. After the board has committed its expertise to this process.

Mr. PRINCIPI. Ranking Member Norton, I certainly agree with you about the BRAC process. It is straightforward, it is clean, it is to the point. There are strict timelines, and everyone's feet is held to the fire. And at the end of the day you don't have a postal annex type problem. It is going to be done by the end of that 5-year period. And I think perhaps the administration's proposal does involve OMB and others in this process that I think is going to delay it.

I was impressed with the controller's testimony, Mr. Werfel's testimony this morning. The commitment of this administration to get this done is very, very impressive. And I think it is what is going to be needed to keep the agency's feet to the fire. But the less that you can have, an outsider's—you know, agency's coming into play here and stalling the process, I think you will be better off. That is why—

Ms. NORTON. Mr. Principi, because we have got to ask ourselves, what is the value added? You know, if there is going to be somebody else in the process, you've got to be able to say, "Here is the value added, this is why you want that other agency in it."

Mr. PRINCIPI. Yes. Well, what I am concerned about is that, at the end of the 6-year period, if an agency says, you know, "We can't dispose of this property," for whatever reason, they report to OMB, but there is no concrete steps after that as to what happens. And that is where I think you are going to get into the same situation as you had with the postal annex.

That is why I suggested the Resolution Trust Corporation model. I don't know if that's the perfect model, but it seems to me somebody has to be held accountable with the internal expertise, the dedicated consultants, and real estate matters in management that can get this property off of the Federal books and into the private sector.

Ms. NORTON. Well, again, the chairman does try to breach this understanding that the administration has of proposals, so I comment him on that.

I am very interested, Mr. Glosserman, in your testimony, because, you see, I see this as an innovation-laden possibility for the government, which does so little in the way of innovations in anything it does. And, of course, real estate market provides numerous opportunities for deals and innovations. And you say, in your testimony, that there is a possibility of extracting value from what the government owns, and using that value to build new, energy-efficient buildings. Could you describe briefly what you think the mechanics of such a deal would be, how it would operate?

Mr. GLOSSERMAN. Certainly. There is, in the Washington metropolitan area alone—and I suspect this is the case in other urban areas—there is a significant amount of density related to the sites that government buildings and assets currently occupy.

That density is not going to be generally used, if nothing happens with the use of the asset, with the office building. So you have a variety of circumstances in which there may be an aged building on that land.

So, one example would be a circumstance where the government would literally lease—in other words, monetize—the value of a very significant portion of that density. I will just give you an example.

For instance, if you had a site that had, literally, 500,000 or 1 million square feet of density, and that site were being occupied today by a 200,000 square-foot building that was old, or maybe the building didn't occupy 100 percent of the site, if there were a process in which the government could leverage that density, and monetize that density in return for creating funding—in which you demolish the building, build it on a different part of the site, move the use—there are a variety of ways to, if you will, free that density up, or simply move it to another site and to sell it into the private sector. I think Mr. Winstead was alluding to that kind of process.

But those situations exist in numerous—I can give you probably numerous examples—just in Washington.

Ms. NORTON. Mr. Winstead?

Mr. WINSTEAD. Ms. Norton, again I think we have a model here. Mr. Principi talked about the RTC, but I do differ with this a little bit, because the RTC was in a savings and loan crisis with a huge amount of action, huge assets that needed to be moved very, very quickly. And, in reality, the Federal Government got a small percentage of value in those assets. There were huge fortunes made, as a result of the purchase in—under a constrained time period of RTC assets.

I think, as you all evaluate this bill and continue to deliberate, I think one of the things that you well know—because I know you were chairing the committee when this came about—is that we really do have a precedent. I mean the brokerage community—across this country with four national contracts, when they have a space need they go through an allocation of an even and competitive commissions to try to find those solutions.

That is what I think is needed here, as well. I think once the commission makes a recommendation, there is a way to deal with these assets in a very similar manner as they had with the brokerage contract and currently underway. I mean there is plenty of aggression, there is plenty of effort to get out in the community and find users and create higher value for the Federal Government through the broker contract.

And they need a little bit different skills. I mean scoping of assets is talking, like Mike, about what are the other attendant values that are created in redevelopment. So it is not just a broker function. But I think that privatization approach to the recommendations, and ensuring it is done over a short period of time, it is very important.

One last comment, and it has to do with the time period. I mean one bill has 6 and one has 12 years. And the controller talked between 6 and 12. I do think it is important, for the reason of the RTC experience, to give GSA, together with, you know, whoever supports them in this effort, to give them time to maximize those assets.

I know right now, for example, WMATA has a very competent director of real estate, and he is holding back, because he knows that a lot of the WMATA assets are not of the value they should be, or could be, in 2 years. Now—and that is the same kind of judgment that the team that would be administering these recommendations needs to take.

And yet I think there are huge opportunities and huge returns. And, as you know, GSA now—post the ARRA funding—is now very much in need of money to maintain existing buildings, and to service expanding needs. So I think it does have a revenue benefit.

Mr. DENHAM. Thank you, Mr. Winstead. At this time the committee will have one more final round of questioning. The chair now recognizes Ranking Member Norton.

Ms. NORTON. Thank you, Mr. Chairman. I just have one more question. It really would be for all three of you, and it comes off of comments made with respect to the last question. For example, you, Mr. Winstead, mourned about the small value that the government reaped after the redevelopment—the RTC, as a result of the RTC.

Now, I am trying to take the amount of money—I think the administration's goal is to sell \$10 billion to \$12 billion. I want to know whether you think—the three of you think—that is a realistic number. I think they think you can get that out of the first round.

And I would be particularly interested in how a private sector, which had such assets—obviously, not as large—to liquidate, high-value assets, would go about doing so, particularly if it felt there was a time certain of some kind involved. How would that private sector, which has a bottom line, protect its interests in a situation like that? Or would the private sector simply never encase itself in a timeframe with respect to valuable assets?

Mr. GLOSSERMAN. If I understand the question, as I indicated previously, if there is an uncertain timeframe that the private sector is forced to deal with, obviously, that will make it much more difficult to proceed in an efficient manner.

I will say, on the other hand, that having the flexibility on the part of the commission—I was alluding to the timeframes involved here—the private sector, as long as it knows that there is a process, though it may be lengthy, is willing, I think, to pursue this value that it would see in these assets.

I think the private sector wants to know that the process, though, is a certain one, despite the fact that it may take an extensive period of time—

Ms. NORTON. Well, I am interested in what the private sector would do if it held assets like—

Mr. GLOSSERMAN. It—

Ms. NORTON. If the private sector held assets, high-value assets, it is in a down market, and it has got to protect itself, but it has

got to get rid of this asset. And that is what the commission will find itself—

Mr. GLOSSERMAN. This portfolio is overwhelmingly large. It is the largest real estate portfolio that one could imagine. So there will be assets that the commission, I would think, would want to sell right away, because—mainly, it is expensive. That is the way we would view it in the private sector. It just is not worth holding an enormous percentage of these assets, given the cost to the government of maintaining them.

On the other hand, there are a number of assets that we would view as it is not the right time, but we have a framework within which we can take the time to go maximize value. And there are the tools that we have to work with. And perhaps not just sales. In public-private partnerships, where we have an opportunity to take advantage of an upside, so that we make a transaction today at a certain base, but we live for the upside, and for the improved markets.

There are a variety of ways to address that, which is how we would do it, and how I would think the government would want to think about this.

Ms. NORTON. Mr. Winstead or Mr. Principi, did you have any comments on that?

Mr. PRINCIPI. Well, I would add that I agree that maximizing revenue to the Federal Government is critically important. And in order to avoid these fire sales of properties, I think the disposing agency, whether it be the individual agencies or GSA, should have the authority to enter into arrangements such as leases or sale lease-backs, until the ultimately implementation of the commission recommendations can be done. Maybe in a down market, an economic recession, it might not be the right time to sell a property, but enter into some kind of arrangement until that implementation can happen.

Mr. WINSTEAD. Madam Chair, I think that Mr. Glosserman described this issue of maximizing a private-sector asset. And so, GSA, together with support team, you know, would be obviously needing to be charged to doing the exact same thing.

And I think the reality is that, fortunately, the market seems to be moving up a bit from a 2-year. So we could have a situation where values are increasing. So, if this commission gets underway quickly with the passage of this legislation and gets staffed up, I think it is going to hit the market at the right time. And, obviously, that will go to future needs of leasing or Federal building.

You and I do know a lot of the issues that, in certain sectors, where there is surplus capacity, and we dealt with that during your tenure. Thank you.

Mr. DENHAM. Thank you. And just a final question. Mr. Principi, you suggested that the Resolution Trust Corporation used in the 1980s and 1990s could be used as a model. Can you just further elaborate on that?

Mr. PRINCIPI. Again, I think that the Resolution Trust Corporation model worked reasonably well. Now, I—you know, I won't dispute Mr. Winstead's characterization, that a lot of people got rich and the Federal Government did not get an adequate return on their dollar. I really can't address that.

But again, I just think that there has to be some independent agency—entity that has the taxpayers' interests at heart, that can focus singly on this issue of disposition, and with the in-house experts, the dedicated consultants that can do it. And I just pointed out the RTC as a possible model that might work in this case.

Mr. DENHAM. Thank you. In the aspect of time, I would just say finally that we appreciate all of your testimony today, and we are looking for further input as this bill moves along. We would ask each of you to work with our staff in continuing to move this bill forward and amend it in the right way so that we can certainly include as much—and encourage as much—private involvement as possible.

I will also add that we are putting together a working group to encourage those in the private industry to work with us to develop the right principles and the best practices so that we can have the best taxpayers' concerns at hand.

With that, I would ask unanimous consent that the record of today's hearing remain open until such time as our witnesses have provided answers to any questions that may be submitted to them in writing, and unanimous consent that the record remain open for 15 days for any additional comments, and information submitted by Members or witnesses to be included in the record of today's hearing.

[No response.]

Mr. DENHAM. Without objection, so ordered. I would like to thank our witnesses again for their testimony today. And if no other Members have anything to add, this subcommittee stands adjourned. Thank you.

[Whereupon, at 12:33 p.m., the subcommittee was adjourned.]

**Testimony of Mr. Michael Glosserman, Managing Member, The JBG Companies
Before the United States House of Representatives, Committee on Transportation
and Infrastructure, Subcommittee on Economic Development, Public Buildings
and Emergency Management**

**Hearing on "How to Stop Sitting on Our Assets: A Review of the Civilian Property
Realignment Act"**

Thursday, May 12, 2011

Good morning Chairman Denham, Ranking Member Norton, and members of the Subcommittee. My name is Michael Glosserman, and I am Managing Member of The JBG Companies. Thank you very much for inviting me today to testify in support of H.R. 1734, the "Civilian Property Realignment Act" which was introduced by Chairman Denham last week. I understand that the Administration also has released a similar version of the bill.

The JBG Companies has been an active investor, developer and manager of commercial real estate properties in and around the Washington, DC metropolitan area for over 50 years. We have developed, owned or managed over 30 million square feet of office, over 15,000 residential units, 4,000 hotel rooms and over 5.5 million square feet of retail.

Over the years, we have worked extensively with GSA on a number of high profile projects including the development of the 1.4 million square feet Department of Transportation Headquarters, which we still own, and other large leases throughout the city. We are also moving forward with projects for the National Cancer Institute and Social Security Administration. We have enjoyed our close cordial relationship with GSA over the years to create highly efficient projects and leases that meet it's requirements for security, energy efficiency and functionality. While our experience is predominately with GSA in the Washington Metro Area, we believe that the Civilian Property Realignment Act is an important step towards providing additional efficiency for all of the Government's real estate portfolio and will generate significant value for the federal government.

Many of the properties in the Government's real estate portfolio are in prominent locations on sites with significant excess density and therefore, significant untapped

value. The Civilian Property Realignment Act would provide the Government with the ability to capture that additional value and reduce costs for taxpayers through the sale, re-positioning or re-development of these assets. Many existing Government buildings are highly energy inefficient and demand significant annual maintenance funding to continue their operations. Many of these buildings are in desperate need of capital reinvestment, yet the Government lacks the funds to make the necessary capital improvements. The Act would provide a path for the Government to put its agencies into new or renovated buildings at little or no cost to the taxpayers, given that the Government would be able to take advantage of the significant value that already exists on many of their sites.

Put very simply, the Civilian Property Realignment Act provides a 'win-win' situation for the Government and the private real estate investor community. Under the Act, the Government would be able to transition many of its agencies into new, more energy efficient facilities that require significantly less annual maintenance expenses. The private sector would be able to invest in prominent real estate sites that were previously unavailable. Depending on the Government's needs in a particular location, the Government could sell a portion of an existing site to a private investor or developer and use those proceeds for a newly constructed building on the remaining portion of the site. The private sector portion of the site could be developed based on highest and best use, either to create an improved mix of uses including office, retail, residential or hotel that would support the area. As I noted previously, the untapped value in many of the existing Government sites is large enough to cover the cost of constructing a new federal facility without any net outlay by the Government over the payment received for excess density from the private sector. In fact, I believe many of these sites will even produce excess capital that can be returned to the Government and used towards debt reduction.

I would like to offer an example to you to show how dramatic the value proposition can be both for GSA and for a private sector investor. The Old Post office has been used in recent history as an office building. This wonderful building has been sitting underutilized for almost two decades. During this period, the Government has spent more money to operate and bandage the building than it has received in rent from the current federal occupants. I believe this has been previously reported as being in the range of a five million dollar loss per year. Over this period the building has also been allowed to slowly degrade through the Government's inability to appropriate sufficient dollars to undertake the massive recapitalization that was required. Yet this building has significant value to the private sector. If this legislation had been available, this federal building would have been a prime candidate, returning to the Government much needed funds to reduce the budget deficit or renovate other federal assets. The Civilian Property Realignment Act will pave the way for these kinds of opportunities.

I would also like to add a few suggestions for your consideration:

1. I urge that the Commission be empowered to identify opportunities that are outside the scope of what may be recommended by individual agencies. Many undervalued properties or sites with excess density or alternative value-add opportunities are likely to be overlooked by Government agencies, which do not possess real estate expertise. Some of these opportunities may in fact be identified by the private sector, and the Commission should be permitted to work within a framework that encourages and invites this private sector participation.
2. Agencies may need to be incentivized to find real opportunities. Consider providing funding, resulting from the value created, back to the agencies to pay for replacing antiquated facilities or renovating existing facilities.
3. Timing a real estate transaction to maximize value is difficult at best. The timeframes proposed appear to work for a majority of the transactions, especially those involving outright sales. However, many transactions may require substantially longer periods to extract the potential value. I would encourage you to consider imposing longer timeframes for certain categories of assets.

There are many capable firms in the real estate industry, like JBG, who have the capital, expertise and ability to work with the federal government and execute transactions that achieve the goals of the Act. Firms like ours would welcome the ability to participate in fair and open competition for the opportunities presented as a result of the passage of this bill into law. We have the development expertise and asset management capabilities that could help resolve many of the issues that the Government currently faces in its real estate portfolio. We also have real-time market data that would allow us to work with the Government and take advantage of opportunities in the marketplace as soon as they present themselves.

In closing, I will reiterate that we strongly support the Civilian Property Realignment Act. We are encouraged to see that Congress and the Administration are working to improve the efficiency of the Government real estate portfolio, while at the same time providing the opportunity for the private sector to compete for otherwise unavailable prominent sites throughout the United States. This is an important step towards improving the federal government's real estate asset management while also generating significant cost savings to taxpayers.

Thank you for listening and for your consideration. I would be happy to answer whatever questions the subcommittee might have.

STATEMENT OF AMBASSADOR PATRICK KENNEDY
 UNDER SECRETARY FOR MANAGEMENT
 U.S. DEPARTMENT OF STATE
 Before the Subcommittee on
 Economic Development, Public Buildings, and Emergency Management
 House Transportation and Infrastructure Committee
 "How to Stop Sitting on our Assets: A Review of the Civilian Property Realignment Act"
 May 12, 2011

Thank you for inviting me to appear before you today to discuss the State Department's management of its overseas property and the Civilian Property Realignment Act (CPRA). As the Under Secretary for Management, I oversee ten bureaus that provide logistic, security, and other administrative support to the U.S. Government's diplomatic and consular presence around the world. One of these bureaus, Overseas Buildings Operations (OBO), directs the worldwide overseas building program for State and the U.S. Government community serving abroad under the authority of our Ambassadors. The Department, in concert with other foreign affairs agencies, and Congress, sets worldwide priorities for the design, construction, acquisition, maintenance, use, and sale of real properties and the use of sales proceeds. The Overseas Buildings Operations bureau's mission is to provide more secure, safer, more functional, and well maintained facilities for the promotion of U.S. interests worldwide.

American diplomats were first sent abroad by President George Washington in 1779 to France and Spain; an important qualification in choosing our earliest diplomatic envoys was ensuring that they had the personal wealth to pay for their own lodging, office space, transportation, and other expenses. The first real property owned by the United States abroad was a building given to us in 1821 by the Sultan of Morocco in Tangier. Over time, the Department began acquiring property in order to house our embassies and consulates. Today, the State Department's real estate portfolio encompasses nearly 18,000 properties in over 260 cities worldwide.

Foreign Service Buildings Act of 1926

Our overseas real estate program is largely guided by the Foreign Service Buildings Act of 1926. It empowered the Secretary of State to acquire by purchase or construction, within limits of appropriations, sites and buildings in foreign capitals and cities, and to alter, repair, and furnish such buildings for the use of the diplomatic and consular establishments of the United States.

The Act also states that the space in such buildings shall be allotted by the Secretary of State among the several agencies of the United States Government. Thus our embassies and consulates abroad provide office space not just for the State Department but also for over 30 other agencies, ranging from the Agency for International Development, Defense, Treasury, Commerce, and Agriculture, to Homeland Security, Justice, and the Library of Congress. We provide the office space for all these agencies to carry out U.S. foreign policy and protect our national security, including engaging with foreign governments, promoting democracy,

protecting U.S. citizens abroad, advancing U.S. trade and prosperity, combating terrorism, fighting disease, and promoting human rights. The overall USG presence abroad continues to increase as our increasingly complex world calls for multiple agencies' particular skills in advancing U.S. national interests. From FY 2008 to FY 2011, overseas staffing increased by 12.7%. Among others, Defense staff under Chief of Mission authority grew by 10.5%, Homeland Security by 9.4%, and Health and Human Services grew by 44.9%.

The 1926 Act was amended in 1945 to allow the Department to retain 100 % of proceeds from property sales, and to apply these proceeds toward the acquisition, construction, or other purposes authorized by the Act, as in the judgment of the Secretary may best serve the Government's interest. Sales proceeds are used to acquire safe and secure housing worldwide and for other real estate projects according to need and OBO approval. We have been successfully using proceeds to buy properties to carry out our national security mission, to replace costly leased property, and to fund construction costs of some new facilities. This is critical as it has enabled us to leverage our assets and avoid having to request the authorization and appropriation of these funds.

Since 1945, our ability to retain and reinvest our sale proceeds has been a consistent source of funding for our property management activities abroad, reducing our need for appropriated funds. OBO has a robust program to sell and otherwise dispose of designated properties. In the last 10 years, we have sold 195 properties for over \$450 million and purchased new ones (these sales figures are from our routine on-going efforts). Sales income can vary widely from year to year because properties that become available for sale are worldwide and subject to the vagaries of a world-wide market. If properties become available for sale in good locations with strong markets, we tend to generate more proceeds than some other locations around the world where there is little demand and property values are low. Nevertheless, OBO is highly motivated to identify and dispose of designated property.

The proposed Civilian Property Realignment Act would enact into law many of the practices that the Department has been following for years. But the Foreign Buildings Act also allows flexibility for the Department to address its unique position as an overseas property owner, and to maintain and operate our diplomatic and consular properties so that both State and our tenant agencies can carry out the United States' foreign policy and national security mission.

Mr. Chairman, you outlined H.R. 1734's goals in your May 5th statement, and the State Department is very proud of the fact that we are already implementing them under our current authorities.

Consolidating Our Footprint

After the bombings of our two East African embassies in 1998, the Department embarked on a major construction program to replace our unsecure and unsafe diplomatic facilities. Since 2001, we have completed 79 new facilities, and have another 33 under design or construction. The Secure Embassy Construction and Counterterrorism Act of 1999 generally requires that we collocate all US Government employees under Chief of Mission authority at a new embassy onto one compound. With our New Embassy Compounds, not only do we gain safe and secure

compounds, we are able to consolidate the footprint of our diplomatic and consular facilities, often giving up 5 or 6 separate buildings to collocate onto one compound.

In addition to the security benefits, this consolidation increases efficiency and reduces our reliance on costly leased space.

Maximize the utilization rate of federal buildings and facilities

In addition to the consolidation efforts we engage in for the construction of new facilities, Embassy and Consulate management staff are assisted by our professional space planners in Washington in ensuring that we achieve maximum utilization of every possible square foot of space.

For example, USAID and State are consolidating server rooms and warehouses. We are using floorplate designs which allow for installation of smaller cubicles to handle surge capacity rather than to build larger facilities. We have temporarily split apartment units in Iraq and Afghanistan which can later be changed back to regular sized apartments. At some posts, double shifts for some operations have reduced the demand for additional space.

As noted above, the U.S. Government's evolving mission overseas has required increased staffing. In many posts, the staff now fulfilling these missions exceeds the level for which the facility was originally planned. In such cases, the Department provides posts with space planning services to reconfigure existing space to meet changing requirements and reduce the need for expansion through additional construction or off-compound leased space.

- For example, the Department received a request from Embassy Tel Aviv, Israel, in April 2010 to reconfigure and upgrade the Consular Section. The Department provided the Embassy with a new layout reducing the size of workstations and offices by 25%, gaining 10 more desk spaces. This accommodated added staffing in a cost-effective manner, and provided better working conditions.
- In Paris, maintenance workshops were moved into space in the Embassy allowing leased space to be given up. The lease was cancelled in January 2010 and the annual savings were approximately \$300,000.
- In Rome, the U.S. Mission to the UN agencies (24 employees) is on the fourth floor of an office building in central Rome. The Department is renovating the former Public Affairs Annex on the main Embassy Rome compound for the U.S. Mission. The scheduled move is late summer 2011 and annual lease savings will be over \$470,000.

Savings such as these will help offset rising lease costs around the world. Overall, our overseas facilities collocate multiple agencies into single buildings or compounds. Our overseas properties are characterized by a high rate of utilization, with almost 99% classified as either fully utilized or over-utilized.

Reduce the reliance on costly leased space

Our global property portfolio includes offices, housing, warehouses, and other properties. Over 80 % of these properties are residential; of those, three-quarters are short-term leased (a lease of less than 10 years). Our Real Property Acquisition Initiative taps into the Department's unique authorization to keep and utilize the proceeds of sale from excess properties, and thereby reduce our reliance on costly leased space. The Department monitors market developments, financial trends, real estate conditions, and currency movement to identify locations around the world where favorable opportunities for purchase exist or are developing.

The Department's goal is to own a minimum of 40% of its housing worldwide; we currently own about 26%. Maintaining some leased housing provides flexibility to address changing conditions (varying family sizes, staffing distributions, etc.).

Proceeds from the sale of excess properties around the world are utilized by the Department for real estate purchases that generate a solid financial return and meet Department and other USG requirements. Returns are measured by analyzing cost-to-rent versus cost-to-own. The 'return' is the rent that is saved. When calculating Internal Rates of Return (IRR), very conservative property value increases are projected, to avoid overstating the long-term benefits of a purchase. The Department has successfully resisted pressure to accommodate higher profile posts at the expense of less visible locations. Purchases are made considering the highest and best direct benefit to the American taxpayer, while also considering the safety and security of Government staff often assigned to difficult postings.

Since in these tight budget times we have not been able to use appropriated funds to increase State's staff housing ownership percentage, OBO has reinvested its sale proceeds to acquire housing in locations where strong returns (no less than 8%) can be achieved and/or where the lack of safe or suitable housing dictates that OBO find creative ways to fill that need. For example --

- In Nairobi, after the Embassy bombing in 1998, OBO recognized the need for more secure staff housing. Lack of acquisition funds led to an agreement with a local developer to build a 60-unit housing compound that State leased in its entirety. The master lease agreement contained an option-to-purchase, in the event funds ever became available to acquire the property, named Rosslyn Ridge. In 2010, OBO acquired Rosslyn Ridge, using sale proceeds from earlier sales of designated properties. The Internal Rate of Return (IRR) to American taxpayers over a 10-year holding period will be at least 9%.
- In Budapest, the Embassy was leasing two apartments in a three-apartment house. The building was appropriately located but a difficult landlord made continued occupancy untenable. OBO was able to negotiate a purchase agreement and the Embassy dropped a more expensive lease elsewhere to fill the third apartment. This deal overall will generate an IRR of better than 12%.

From FY 2004 through FY 2010, the Department purchased 265 properties and saved annual rent of at least \$11.23 million with an average IRR of over 11%. This is very important

as this enables us to better cope with the constantly rising rental costs as well as the depreciating value of the U.S. dollar.

In each case for the program, the purchase must meet or exceed the 8% rate of return that the Department has set as a minimal hurdle for all acquisitions that are not security driven. Additionally, in countries with high economic or political risk purchases must exceed an even higher hurdle rate that is established based upon recognized, published risk factors.

In addition to buying property to replace leases, the Department's property program is also committed to keep lease costs to a minimum. While residential leases are managed by our posts, OBO monitors and manages the overall leasing program, including these measures:

- OBO has to approve any lease over \$25,000 per year;
- OBO has developed rental cost benchmarks at 160 posts that measure post rents against market rent and, updated annually, ensure that the USG is not paying above-market rents for staff housing;
- OBO has set size standards for housing and works with posts to enforce these housing standards; and
- OBO has abstracted key terms from 1,500 major leases to assist in lease renewal and identify possible purchases.

Improved maintenance and operations to reduce costs.

The Department has implemented the following initiatives to improve the maintenance and operations of its overseas real property assets.

Value Engineering Saves Funds and Avoids Costs

Value Engineering (VE) is a function-oriented, systematic, creative, team approach that concentrates on lower life cycle costs while improving quality and performance and results in a report with recommendations for improvements. VE is a powerful tool for solving problems and improving value, in terms of cost, quality, and performance of a project. The Department's VE Program was established in 1987 in order to improve costs and functionality of the various projects. Beginning in 2000, with the build-up of the Department's Capital Security Construction Program (the most aggressive construction program in the history of the Department), there was a need for greater attention to what it cost to build and operate a new facility. At that time, the VE Program was amended and strengthened to enable all the Department projects to utilize its process to improve cost, quality, and performance. There is a return on investment of over \$47 for each \$1 spent on the Department VE program. Savings are generated, for example, by scaling back over-designed features or by replacing expensive items with lower cost alternatives while maintaining required functionality.

Energy and Sustainability Initiatives

OBO has long pursued sustainability and environmental stewardship. Though the Department's stated mission is to "...provide secure, secure, and functional facilities," the Department also

strives to “green” the Department’s embassies and consulates around the world to build international models of sustainability as solid platforms of eco-diplomacy and reduce the Department’s energy costs and environmental footprint.

To accomplish this objective and as part of a commitment to achieving the goals of Executive Order 13514 to the extent practicable, the Department integrates sustainability into standard planning, design, and construction practices. A key part of this strategy is LEED® certification of capital construction projects. Although the Department has used LEED as a design tool for the last decade, the Department began certifying projects three years ago and as of FY 2008 requires LEED certification of all New Embassy Compound, New Consulate Compound, and New Office Annex (NOX) projects. As of FY2010, LEED certification is required at the Silver level.

Standard sustainability strategies and technologies are included as part of the base budget for both capital construction and renovation projects. For the capital projects and major renovation projects that the Department executes each year, approximately \$19 million is expended on site-specific sustainability strategies, with an expected average life cycle savings of \$1.9 million per year, based on the Department’s ten-year payback criterion. These savings will accrue to all agencies and to the American taxpayer.

Empirical energy data from previous projects shows that on average, capital construction projects perform 20% better than baseline, non-sustainable projects. Similarly, data shows that sustainability reduces water consumption by approximately 30%. The Department is starting to see similar performance metrics on renovation projects.

Reduce redundancy, overlap, and costs associated with field offices

In essence, the Department manages over 275 field offices around the world. We are ever conscious of minimizing our footprint to the extent practicable, for both cost-efficiency as well as security reasons in today’s global environment. In order to reduce overlap and costs:

- Since 2001, OBO has been producing a Long-Range Overseas Buildings Plan that sets out a 6-year construction schedule for new embassies and consulates; this plan also includes a global real estate management plan that identifies potential transactions at all posts. In 2010, OBO produced the first edition of the Long-Range Overseas Maintenance Plan, which identifies maintenance and renovation projects at all posts in order to more comprehensively estimate our future maintenance costs. The next versions will be combined into one Long-Range Plan.
- We continuously seek to reduce the operating and maintenance costs of our new diplomatic and consular properties. Through our Design Excellence program and lessons learned, we review our recent projects for ways that we can improve space utilization and reduce both construction and operating costs. For embassies that will not be replaced, we consolidate and reconfigure space, and implement other operational efficiencies.

- President Obama signed a Presidential Memorandum on June 10, 2010, directing executive agencies to accelerate efforts to eliminate excess real property and better manage their existing real estate portfolios. Agencies were tasked to develop Real Property Cost Savings and Innovation Plans that include cost savings initiatives underway and planned. State's plan presents efforts the Department will make to:

1. Increase the income generated through disposals;
2. Reduce annual operating costs; and
3. Better utilize real property by undertaking space realignment efforts, including optimization or consolidation of existing space within Government-owned buildings.

The Department has already achieved nearly 30% of its overall goal for the end of FY 2012 by disposing of designated assets, improving value engineering, and employing energy saving strategies.

Facilitate and expedite the sale or disposal of unneeded civilian properties

Presently, there are 76 USG-owned properties overseas considered for disposal. OBO lists some of these properties on its website. Properties are broken down by geographic region, as well as by type of property. <http://www.state.gov/obo/realestate/index.htm>.

Every year, an Ambassador must file a certification that certain performance measures and programs are in place at post. The Ambassador must certify annually that the post real property inventory data is correct, in order to identify and dispose of excess space and/or to maximize under-utilized space.

In 2008, OBO negotiated the exchange of three 1950's barracks-style apartment buildings in Berlin for the German government-owned Clayallee office building, which formerly housed the headquarters of U.S. forces in Berlin. It is now being used by Embassy Berlin as consular and office space for multiple agencies, thus resolving a pressing need for office space generated by the staffing increase caused by the move of the German government from Bonn to Berlin. This transaction resulted in maximizing functionally obsolete housing for a much-needed asset into which the USG had already invested millions in upgrades and other improvements.

Oversight

The Department's real property program has been studied by the Government Accountability Office (GAO) and the State Department's Office of Inspector General (OIG). The OIG strives to inspect each post every 5 years, and makes recommendations for the disposal of real property. Management of Federal real property is one of GAO's high risk areas. We take OIG and GAO recommendations seriously, and have used them to improve our management of real property.

The Department also submits regular reports to Congress on its real property sales and purchases. OBO has been reporting to Congress since 1997 on its real property sales and purchases. We do a quarterly real estate report that summarizes the acquisitions and disposals

for each quarter, with costs and proceeds realized, and identifies properties for possible disposal for the next 2 fiscal years. An annual report is also submitted that lists overseas properties for sale; this year's report lists 76 properties identified for possible disposal from 2011 through 2012.

The CPRA and the Department of State

The Administration's draft proposal included a separate section on diplomatic and consular properties that reflects the unique nature of overseas property management and the challenges we face, by allowing the Secretary of State to remove any transaction from the Board's list of recommendations to the Office of Management and Budget that involves a civilian real property asset located outside of the United States that is owned or managed by OBO. It is imperative that the Department have maximum ability to negotiate with host governments, to vacate properties where local conditions have changed, and to acquire property in order to carry out foreign policy priorities. Overseeing the Department's overseas properties in the same manner as domestic Federal property is not possible given the very different conditions that prevail overseas and would hinder the re-investment of proceeds at very favorable rates. Though the proposal acknowledges the Department's unique mission, the State Department will continue to be an enthusiastic participant in the President's efforts to transform Federal real estate management.

Various factors impact our ability to sell excess real estate. Foreign governments, for example, have the right to approve or disapprove the sale of diplomatic and consular properties – a right that the U.S. Government itself also invokes in the United States.

In conclusion, Mr. Chairman, I believe that the State Department has been effectively managing and implementing its overseas real property activities for years, and the retention of sale proceeds is a key element. Retaining 100 percent of sale proceeds allows us to purchase property to address pressing operational needs and to reduce our reliance on costly leaseholds. It also allows us to reduce our requests for increased appropriated funding. We are very conscious of the interest in effective property management by both the Congress and the Administration, and we will strive to continue our efforts in effective and results-oriented asset management.

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TESTIMONY

Of

ANTHONY J. PRINCIPI

FORMER CHAIRMAN, 2005 BASE REALIGNMENT AND CLOSURE COMMISSION

BEFORE THE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND
EMERGENCY MANAGEMENT, HOUSE COMMITTEE ON TRANSPORTATION AND
INFRASTRUCTURE

RAYBURN HOUSE OFFICE BUILDING, ROOM 2167

THURSDAY, MAY 12, 2011

Good morning Chairman Denham, Ranking Member Holmes Norton and members of the Subcommittee. I welcome your invitation to comment on your introduced legislation H.R. 1734, the Civilian Property Realignment Act. In my view, your legislation improves considerably on the Administration's initial proposal.

When I appeared before this Committee on April 6th, I recommended several changes to the Administration's proposal to establish a Civilian Property Realignment Act. I am gratified to note that a number of those recommendations are included in H.R. 1734. For one, the legislation establishes a Commission vice a Board, expands the number of members on the Commission to nine vice seven, calls on the President to name individuals to the Commission in consultation with the leadership of the House and Senate and requires Senate confirmation. Further, the legislation holds the President and not the Director of the Office of Management and Budget

rightfully accountable for the review and submission of Commission recommendations. In my view, these steps will bring greater independence to the Commission and more transparency to the process. As I indicated at the April 6th hearing, independence and transparency are the sine qua non to the success of the process.

You have requested that I review your legislation and provide additional comments and recommendations. I have very few. Section 11 calls for the establishment of "standards and criteria" and outlines nine principles upon which to develop criteria. It is not clear to me if there is a difference between "standards" and "criteria" and, in the absence of term definitions, I would recommend that the term "standards" be defined or deleted. I applaud the nine principles and would suggest that they be established in law as the criteria against which federal agencies and the Commission must evaluate each facility for disposition. I cannot overemphasize the

importance of criteria independently established and implemented.

Section 12 outlines the duties of the Commission. While the legislative language infers that the Commission utilize criteria, it is not clear how the Commission would utilize that criteria.

In the Base Realignment and Closure Act of 1990, the BRAC Commission, in weighing each recommendation submitted by the Defense Department, is required to explicitly state whether the Department deviated from any of eight criteria and point out the criteria deviated before making its recommendation. I therefore propose that the language in Section 12 be tightened to more clearly define the role of criteria in Commission deliberations.

Finally, I would suggest again the importance of the accounting of the real savings to taxpayers generated by the entire process. For the 2005 BRAC, the Defense Department utilized an accounting system that estimated savings by closure and

realignments of nearly \$47 billion over 20 years. According to the GAO, that savings estimate has now declined to less than \$13 billion primarily due to vastly underestimated implementation costs. I would urge that the GAO be required to track and report to the Congress periodically on Civilian Property Realignment costs and savings.

Finally, I note that Section 15 provides that implementation of the Commission's Recommendations are to be undertaken pursuant to existing authorities available to GSA and the federal agencies. While the legislation mandates that all recommended actions be completed no later than the end of a six-year period, the legislation leaves the ultimate action an open question. In order to ensure prompt implementation of the recommended actions and the disposal of such properties in a manner that will generate the most revenue to the Government and in order to avoid "fire sale" disposals, the legislation should specifically enable the disposing authority

with the ability to enter into ground leases, sale-leasebacks, lease-leasebacks, or other arrangements pending ultimate implementation of the Commission's Recommendations. As you know, the need for swift disposal of non-performing assets was recognized and well managed during the Savings and Loan crisis in the late 1980s and early 1990s with the establishment of the Resolution Trust Corporation which I believe could be used as a model for this undertaking. Finally, with respect to Section 20, in order to avoid potential confusion with respect to leasing authorities that some federal agencies currently possess, I recommend that subsection (a) be modified so as to recognize those authorities as not being affected.

Thank you, Mr. Chairman. I am prepared to respond to any questions.

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**Testimony of Daniel I. Werfel
Controller, Office of Management and Budget
before the
Subcommittee on Economic Development, Public Buildings, and Emergency Management
House Committee on Transportation and Infrastructure
May 12, 2011**

Thank you, Chairman Denham, Ranking Member Norton, and members of the Subcommittee, for the invitation to discuss with you today how the government can improve its management of the Federal real estate inventory by enacting the President's Civilian Property Realignment Act proposal.

In this year's State of the Union address, the President acknowledged that we cannot win the future with the government of the past. Stated differently, significant improvements in government performance will require significant changes in how we conduct our business. For too long, the American people's hard-earned tax dollars have been wasted on maintaining empty buildings and holding on to valuable properties the government no longer needs. For this reason the President submitted a bold new proposal to significantly reduce and realign the Federal real estate inventory by leveraging the model successfully used in the past for defense properties. This proposal was included in the President's FY 2012 Budget and an expanded version was transmitted to Congress on May 4th, 2011.

The Administration is pleased that Chairman Denham has introduced legislation that supports our efforts to cut waste and save taxpayer dollars in the government's real estate holdings. We believe there is significant common ground between the President's proposal and this House bill, and we look forward to working with Chairman Denham, Committee Chairman Mica, and other members of Congress to achieve billions in savings for the American people.

As described in greater detail throughout my testimony, the President's proposal would empower an independent Board to break through longstanding barriers created by red tape, financial disincentives, and competing stakeholder interests in a manner that would accomplish:

- Quicker disposal of surplus properties;
- Conversion of unneeded real estate into reductions in the Federal deficit;
- Consolidation of more workers and programs into less space;
- Reduction of costly leases;
- Realignment of the real estate inventory for 21st century service delivery; and
- Reductions in energy consumption and operating costs.

Background

Each year, the Federal government wastes taxpayer dollars on government properties that it no longer needs. These properties include roughly 14,000 buildings and structures currently designated as excess and about 76,000 properties identified as underutilized. There are also significant opportunities for realigning our real estate that Federal agencies have yet to identify due to competing stakeholder interests, financial disincentives, and other constraints. We need to take immediate steps to take advantage of the many opportunities that have already been identified to date and simultaneously move forward on additional and more transformational possibilities.

Inefficiency associated with the management of Federal real estate is a longstanding problem. In the 1960's, President Nixon tried to address the problem by creating a Real Property Management Program.¹ Almost two decades later, President Reagan issued two separate executive orders to try to fix real property management.² In 2004, President Bush issued Executive Order 13327 to create the Federal Real Property Council and order the creation of a Federal inventory (the Federal Real Property Profile) to be maintained by the General Services Administration (GSA).

Accomplishments

Last year, the President issued a memorandum titled "Disposing of Unneeded Federal Real Estate" and ordered agency leaders to take aggressive action to reduce their real estate footprint. The President also set a goal of \$3 billion in civilian savings, which agencies are on track to meet by the end of FY 2012. However, our work with agencies on their real estate plans has made it apparent that major savings opportunities, that could yield significantly more than the \$3 billion savings goal, lie within our grasp, but cannot be implemented with the traditional tools available for managing our real property assets. The proposal I am here today to speak to you about represents a significant expansion of the Administration's efforts.

Building on Past Success

The Department of Defense's Base Realignment and Closure (BRAC) program has been a model for rationalizing infrastructure with mission requirements. In this process, the Secretary of Defense recommends to an independent commission those installations that the Department of Defense believes should be closed or realigned. The Commission reviews the Secretary's recommendations, and then sends its recommendations to the President who could either accept or reject the Commission's recommendations in their entirety, but he could not make any modifications. If accepted, the President forwards the recommendations to Congress. If Congress does not enact a joint resolution of disapproval within the statutory timeframe, the

¹Richard Nixon: Statement About a Report of the Property Review Board, July 25, 1972, *available at*: <http://www.presidency.ucsb.edu/ws/index.php?pid=3503&st=&st1=#ixzz11BqsBude>

²Ronald Reagan: Executive Orders 12348 and 12512, *available at*: <http://www.presidency.ucsb.edu/ws/index.php?pid=42208#axzz110qF68zN>; <http://www.reagan.utexas.edu/archives/speeches/1985/42985h.htm>

BRAC Act requires the Department to carry out all the closures or realignments. This approach helped overcome the roadblocks that had previously made base closure and realignment nearly impossible. BRAC efforts are expected to result in \$80 billion in net savings over the next 20 years (or \$4 billion annually).

The President's Civilian Property Realignment Act (CPRA) proposal builds on the best practices of BRAC: an independent Commission and consideration by Congress on an all or none basis. The proposal would establish an independent board of experts to expedite disposal of a selection of unneeded properties and identify opportunities to consolidate, reduce, and realign Federal real estate. The CPRA Board would present recommendations to Congress on bundles of identified properties in the greater Federal inventory to be voted on in an up or down manner. The process also streamlines the current authorities that are involved in any disposal or consolidation of properties identified by the Board.

Most importantly, the CPRA process will be successful because it is a comprehensive solution to the three primary obstacles standing in the way of efficient real property management: red tape, financial disincentives, and competing stakeholder interests.

Red Tape

There are more than 20 steps in the process required to sell or otherwise dispose of any given federal property. There are good reasons why these steps exist (e.g. assuring good title to land); however, it may not make sense to apply the steps uniformly – it is inefficient to use the same process to sell a small warehouse in a rural location as is used to sell an office building in a downtown urban setting. Frequently, these steps can slow down the disposal or consolidation process and act as a disincentive for agencies to better manage their inventory.

The CPRA proposal cuts through the red tape in two ways: by accelerating the process through which the government chooses what to do with a property, and then by expediting the implementation of recommended disposals or consolidations for those properties identified by the Board. This approach eliminates the one-size-fits-all process that exists today.

The CPRA Board speeds up the decision of what to do with the properties that it identifies by applying a rational approach to existing review requirements and balancing the equities of competing stakeholders in real property issues. After conducting a review of agency real estate plans, the Board would conduct its own independent analysis of agency inventories.

The Board will issue a report with a list of recommended actions. This report will include directions to send some of its selected properties directly to sale without going through certain steps that otherwise would be required in the disposal process, such as review by certain preferred parties outside of the Federal government. Other selected properties on the list will be set aside and directed immediately to a public benefit conveyance, such as to one of sixteen sponsored programs (e.g. parks, schools, historical preservation, etc.).

While formulating its recommendations, the Board will take into account, among other criteria, the community in which the property is located; the best use of the property; the

potential uses of the properties for homeless assistance, parks and recreation, or other public benefits; the historical nature of the facility; the environmental effects of a proposed action; whether the action would create an “inholding” (i.e., a situation in which a non-Federal entity would own or occupy a facility within a larger Federal campus or property); and whether major environmental remediation must be done to the property. The Board will also be charged with reviewing whether past actions by agencies have adequately addressed real estate management and with assuring that CPRA transfers will be made in an environmentally conscious manner, consistent with the law and protection of public health.

The CPRA proposal also speeds up the implementation of sales and conveyances for the properties recommended by the Board for realignment. Instead of undergoing the current step-by-step process that can take up to a year, properties on the CPRA list of recommendations that are chosen for public benefit conveyance will go through reviews concurrent with one another to avoid wasting time. This improved process will accelerate implementation while preserving the core mission of the public benefit conveyance program.

Financial Disincentives

There are many upfront costs agencies incur when disposing of properties or realigning space, such as for moving expenses and reconfiguration costs. However, in many cases, agencies do not benefit financially from the sale of property by retaining some of the proceeds. Therefore, it can end up costing more money to sell a property than to maintain it in a vacant state from year-to-year, even when there are obvious long-term savings that could be achieved. On top of this disincentive, often an agency does not have the upfront capital to cover the short-term costs.

To address this issue, the CPRA Board would utilize a revolving fund and would structure the division of proceeds to provide agencies with funding and incentives for disposals and consolidations. The proposal creates an Asset Proceeds and Space Management Fund to provide discretionary logistical and financial support to agencies to ready properties for disposal, consolidation, or reconfiguration, as a result of a Board recommendation. The Board will retain up to 40 percent of net proceeds from any disposal that results from a Board recommendation, in order to pay for the Board’s continued operations, replenish the Asset Proceeds and Space Management Fund, and provide funding for agencies’ capital improvement accounts. The Board will also send at least 60 percent of the net proceeds from any Board-recommended disposal to the Treasury General Fund for deficit reduction.

Competing Stakeholder Interests

Proposals by the Federal government to vacate, transfer, or sell real estate affect numerous, competing, and legitimate stakeholder interests, each with a different perspective on whether the Federal government should vacate the property and what will become of the property once the Federal government interest ends. For civilian assets today, the inability to resolve these competing interests not only slows or stymies identified opportunities for realignment but also creates a powerful disincentive for Federal agencies to initiate or consider new and bold opportunities for realignment.

The CPRA proposal helps overcome this challenge by tasking the independent CPRA Board to balance all views and determine the optimal overall outcome for the taxpayer. Further, the Board will not recommend disposals or consolidations on an individual basis; rather, it will bundle a package of recommendations that succeed or fail together. Following an OMB review, Congress will have 45 days to consider the recommendations, and only a “no” vote can prevent the recommendation from moving forward. Congress, like OMB, cannot reject individual recommendations. Its sole options are either to endorse or reject the whole package. The BRAC process proved that this approach can overcome the challenge posed by competing stakeholders that makes the typical one-by-one property disposal or realignment difficult.

Conclusion

The Federal government has tens of thousands of government properties that it no longer needs to fulfill its mission for the American people. This would be an unacceptable waste of taxpayer dollars at any time; but it is particularly unacceptable today, when we have a pressing need to rein in our spending and reduce our deficits. When families are watching every penny, and making tough choices, they have a right to expect their government to do the same and operate as efficiently as possible. We can no longer continue to operate using the costly real property inventory of 60 years ago. By using the BRAC model to address this issue, we can leverage our portfolio to improve the delivery of government services to the taxpayer, reduce the government’s energy footprint, and send proceeds from the sale of unneeded Federal properties back to the Treasury to reduce the deficit. We cannot achieve these important goals using the same techniques that have been failing us since the 1960’s. It is time for a bold new step – we look forward to working together to help pass the President’s Civilian Property Realignment Act and to joining with agencies, like the State Department, to leverage best practices and bring about a transformation of real property management. We believe the President’s proposal and the recently introduced bill sponsored by Congressman Denham share common objectives and leverage similar tools and approaches for achieving significant savings and efficiencies in our Federal real estate portfolio. We look forward to working with this Subcommittee to finalize the legislation and begin our important work ahead.

Thank you for inviting me to testify today. I look forward to answering your questions.

"How to Stop Sitting on Our Assets: A Review of the Civilian Property Realignment Act"

Subcommittee on Economic Development, Public Buildings, and Emergency Management
Thursday, May 12, 2011, 10:30 a.m.
2167 Rayburn House Office Building
Washington, D.C.

**Questions for the Record (QFR) from Representative Hultgren
to OMB Controller Danny Werfel:**

QUESTION ONE

1a. What is the current status of the official Federal real property inventory?

ANSWER:

The Federal Real Property Profile (FRPP) was created by Executive Order 13327 in 2004 to act as the Federal government's unified database of all real property under the custody or control of Executive Branch agencies. As outlined by GAO, the FRPP contains asset-level information submitted annually by agencies on 25 data elements, "including four performance measures that enable agencies to track progress in achieving property management objectives." In Fiscal Year (FY) 2010, roughly 1.1 million assets were catalogued within the inventory, including more than 200,000 total land assets totaling more than 40 million total acres.

The efforts of OMB and GSA to improve the inventory have yielded successful results. In its "High-Risk Series" February 2011 report, GAO found that "real property data reliability and managing the deteriorating condition of facilities no longer remain high-risk issues." GAO cited the implementation of procedures by OMB and participating agencies to verify that data submitted to the FRPP are correct as a reason for this success. In addition, GAO praised GSA's Office of Government-wide Policy (OGP), which acts as the database administrator of FRPP, for "instituting a data validation process whereby FRPP will not accept an agency's data until it has corrected any violations of established business rules and data-checks." GAO's ultimate analysis found "none of the basic problems [they had] previously found," concluding that the FRPP is "sufficiently reliable as a database describing the real property holdings of the Federal government."

1b. Is the official inventory georeferenced- in other words, does it have a mapping or geospatial component?

ANSWER:

The FRPP collects multiple elements on location data, including: Street Address, Latitude, Longitude, City, State, Country, County, and ZIP code. While the

reader of FRPP data does not interact within the database itself on a map, this database information can be downloaded and mapped using geospatial software. For example, the White House website's excess map (found here: <http://www.whitehouse.gov/issues/fiscal/excess-property-map>) was created using FRPP data. However, there are significant operational security concerns when compiling the entire Federal inventory and certain data elements on to one map.

QUESTION TWO

2a. How many property inventories does the Federal government have?

ANSWER:

The FRPP is the Federal Government's only inventory of all real property. Individual agencies maintain smaller property databases for their internal portfolios and inventories based on their specific mission needs.

2b. How much taxpayer money is spent to administer the over 100+ inventories?

ANSWER:

We defer to agencies for specific questions about their individual inventories. The Federal Real Property Profile costs \$1,751,000 for the contract to manage and operate on an annual basis.

2c. How much redundancy and duplication in activities and cost is there?

ANSWER:

The FRPP maintains data across the Federal Government. Each agency maintains its own asset management system to manage their assets.

QUESTION THREE

3a. What is being done to link the official Federal real property inventory with other agencies land inventories to satisfy the 1980 and 2007 NAS Report recommendations?

ANSWER:

Federal agencies have made significant progress in their real property asset management since the issuance of EO 13327 on February 6, 2004. This progress is found in the reports agencies submit annually regarding the changes to their inventories. In the most recent FRPP reporting in FY 2010, about 18% of the

total assets reported (roughly 200,000 assets) are land assets, identified among the building and structure assets held by agencies.

3b. How much are we spending on an annual basis to develop national property registries/cadastrals for other countries?

ANSWER:

We are not aware of funds being specifically used to develop national property registries for foreign countries.

3c. Why do we not still have one accurate national property registry/cadastre in the USA?

ANSWER:

A national property registry/cadastre of the United States is a map of every parcel in the United States. A national registry will no doubt be a useful tool in the long run, and we look forward to working with Congress to discuss the costs and utility of such a registry and a path forward on this issue.

OMB is currently focused on the realignment of the Federal Government's owned and leased property. This is a significant portion of the real property of the United States, as the government is the largest property-holder in the country. To this end, the FRPP has worked as our centralized, accurate database of all the Federal Government's real property.

Opening Statement of David L. Winstead
Before the Subcommittee on Economic Development, Public Buildings, and
Emergency Preparedness of the US House Transportation and Infrastructure Committee
May 12, 2011

Mr. Chairman and Members of the Committee, I am David Winstead, an attorney in the real estate and infrastructure practice at Ballard Spahr LLP, in Washington, DC. From 2005 through 2008, I had the pleasure of serving as Commissioner of Public Buildings at the U.S. General Services Administration, and currently Chair the Urban Land Institute's Public Development and Infrastructure Council. Given this base of experience in the private and public sector, I am pleased to provide the Committee some perspective on its consideration of H.R. 1734 -- the "Civilian Property Realignment Act".

The intent of H.R. 1734 is to focus resources, and provide an independent review of the utilization of real estate and federal government facilities, with the objective of providing savings and a potential return to the taxpayers from surplus assets. On March 2, 2011, Deputy Director Zients of OMB testified that the Administration would like to see at least \$15 billion of revenue derived from the better utilization of federally owned facilities and leased space. In addition, on March 30, 2011, GSA Administrator Martha Johnson echoed the same objectives, and outlined how the U.S. General Services Administration is managing towards these goals, through more efficient workplace solutions, agency consolidations and disposal of under utilized properties.

The bill before this Committee, H.R. 1734, takes these efforts an important step further, by creating a public-private initiative, through an independent Commission that can look objectively at the real estate needs and solutions for the Federal Government. Congress has seen the results of such an effort on the defense facility side through the Defense Base Closure and Realignment Act of 1990. There are however, several distinctions that the Committee should keep in mind during your considerations of H.R. 1734.

First among these, is that through the Public Buildings Act and the leasing authority of the U.S. General Services Administration, the federal government has the flexibility to leverage the private sector delivery of space (52% of 370 million square feet of federal space) to meet current

needs, agency consolidations and reduction of space. This ever increasing reliance on leased space, to address generic federal government administrative space needs, has been driven by OMB policy over the last several decades, as well as the revenue constraints of the Federal Building Fund.

Second, the work of the Civilian Property Realignment Commission, following by the passage of H.R. 1734, will be added by the federal real estate portfolio data that has resulted from the Federal Real Property Council. This Council was formed by Executive Order 13327, and I had the pleasure of Chairing its Asset Management Committee from 2005 through 2008. Thus, a wealth of data already exists concerning the performance of federal buildings, the utilization of federally owned space, and the energy efficiency of the federal inventory.

In terms of the proposed work of the Civilian Property Realignment Commission, it is important that the private sector not only bring its real estate expertise to the Commission's deliberations, but that it is also involved in the execution on its recommendations by GSA and other federal agencies. Due to the recent recession and real estate market conditions, valuations and timing are key to maximizing potential return to the taxpayer from surplus real estate. Private sector intelligence on market conditions and options, will be a key factor in both the work of the Commission and the ultimate success of its efforts.

In addition, given the federal budget conditions, there should be increasing focus on Public-Private partnership to provide workplace solutions, agency consolidations and federal real property redevelopment. Through potential consolidation of regional offices of federal government agencies, shared workspace options and the flexibility of private sector leased space, the independent work of the proposed Civilian Property Realignment Commission should produce valuable savings to the federal taxpayer.

In conclusion, I would be pleased to provide additional input to the Committee as you continue your deliberations over H.R. 1734, and I would be pleased to answer any questions. Thank you.

(David L. Winstead, Esq., Ballard Spahr LLP, 601 13th Street, NW, Washington, DC. 202-661-2200. winsteadd@ballardspahr.com)



U.S. General Services
Administration

Committee on Transportation and Infrastructure
United States House of Representatives
"A Review of the Civilian Property Realignment Act"
May 12, 2011

Chairman Denham, Ranking Member Norton, and members of this Subcommittee, thank you for allowing the U.S. General Services Administration (GSA) to submit a statement for the record on this important issue.

The Administration has now offered the full text of their draft Civilian Property Realignment Act legislation, designed to accelerate the disposal and consolidation of the Federal government's civilian properties and optimize the utilization of the Federal inventory. This initiative will create an independent Board that aims to increase the number of properties available for disposal, streamline the disposal process and seek new disposal opportunities to help the Government realize financial savings, and look for opportunities to consolidate and co-locate similar functions within the government. It will take these actions in an environmentally conscious manner, consistent with the law and protective of public health and the environment. The initiative expands upon the June 2010 Presidential Memorandum that directed Federal civilian agencies to increase efforts to dispose of unneeded Federal real estate and to maximize the utilization of the current inventory to achieve billions in savings.

In addition, we value Chairman Denham's contribution with the introduction of his legislation that strives to tackle these issues as well.

Given GSA's expertise in asset management, and our statutory authority over government-wide property disposal, we welcome the opportunity to be a part of the ongoing dialogue on how to improve utilization and disposal of real property. GSA's experiences in working with partner Federal agencies to dispose of domestic real property, as well as challenges we have identified in the domestic Federal disposition process, can help inform the ongoing process of establishing a successful civilian property disposal portion of the initiative that accomplishes what we are all hoping to achieve: meeting our responsibility to taxpayers to spend every dollar effectively and find ways to do more with less.

These proposals can provide opportunities to reduce the Federal property inventory and help agencies do more with less. GSA is leading the way to use space more effectively by assisting agencies in breaking out of traditional office space configurations. For instance, in the renovation of our headquarters building at 1800 F Street NW, we are reconfiguring space to recognize the new ways people work and incorporate innovative technologies, and with a modest expansion of space, will take a facility that currently houses around 2,000 personnel and host more than 6,000.

Based on our experience, we believe that any proposal to reform real property asset management must address these central challenges:

- 1) Incentivizing disposals by enabling agencies to realize the benefits of proceeds
- 2) Addressing the upfront costs associated with disposals and consolidations
- 3) Addressing competing stakeholder interests that can slow down or prevent good asset management decisions

We look forward to working with this committee, and with the Office of Management and Budget, as these proposals develop in partnership with stakeholders throughout the administration and other committees of jurisdiction in the House and Senate.

We welcome addressing any follow-up questions that come out of today's hearing and look forward to continuing to play a role in improving Federal real property asset management.