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WASTED SPACE, WASTED DOLLARS: THE NEED FOR FEDERAL REAL PROPERTY MANAGEMENT REFORM

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

ON

H.R. 3134

TO AMEND TITLE 40, UNITED STATES CODE, TO REQUIRE THE FEDERAL REAL PROPERTY COUNCIL TO CARRY OUT A PILOT PROGRAM FOR THE EXPEDITIOUS DISPOSAL OF UNDERUTILIZED FEDERAL REAL PROPERTY, AND TO IMPROVE THE ECONOMY AND EFFICIENCY OF FEDERAL REAL PROPERTY

JUNE 22, 2005

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WASTED SPACE, WASTED DOLLARS: THE NEED FOR FEDERAL REAL PROPERTY MANAGEMENT REFORM

WEDNESDAY, JUNE 22, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:04 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis of Virginia (chairman of the committee) presiding.

Present: Davis of Virginia, Shays, Cannon, Duncan, Turner, Issa, Brown-Waite, Marchant, Dent, Waxman, Cummings, Kucinich, Ruppersberger, and Norton.

Staff present: Melissa Wojciak, staff director; David Marin, deputy staff director/communications director; Keith Ausbrook, chief counsel; Ellen Brown, legislative director and senior policy counsel; Howie Denis, counsel; Robert Borden, counsel/parliamentarian; Rob White, press secretary; Drew Crockett, deputy director of communications; Victoria Proctor, senior professional staff member; Cynthia Vallina, GAO detailee; Teresa Austin, chief clerk; Sarah D'Orsie, deputy clerk; Leneal Scott, computer systems manager; Mark Stephenson, minority professional staff member; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; and Stacey Warady, minority staff assistant.

Chairman TOM DAVIS. The Committee on Government Reform will come to order. I want to welcome everybody to our hearing today on legislation to address longstanding problems in Federal real property management.

The committee is well aware of the challenges of vacant, underutilized, and deteriorating Federal real property. Federal Government agencies control over 3.2 billion square feet of real property assets to the United States and around the world. The Federal Government spends billions of dollars annually to maintain those properties; yet many Federal properties are in disrepair, lack up-to-date technological infrastructure, and pose health and safety threats to workers and visitors.

Out of 8,000 buildings managed by the General Services Administration, more than half are 50 years old and are deteriorating. Combined, they require an estimated $5.7 billion in repairs. As a result, agencies are often forced to vacate properties and lease costly space from the private sector.

With few exceptions, agencies don't have incentives to dispose of these excess surpluses or underutilized properties. For many agen-

cies, revenue-generating sales for real property aren't returned to the agency capital accounts and therefore they reduce the incentives for agencies to invest in properties to make them usable. Furthermore, the placement of excess and underutilized Federal property and deteriorating facilities on the Government Accountability Office high risk series underscores the need for this hearing.

Since the 106th Congress, I have chaired Government Reform hearings examining innovative solutions to address the Federal property management crisis. The committee has found that Federal agencies are subject to several laws that limit their authority to acquire, manage, and dispose of real property. Agencies need broader management authority to efficiently and cost-effectively manage their properties. They must be able to implement life-cycle management principles that will improve operational management, financial management, and agency accountability, encourage cost-savings, and incorporate private sector best practices.

This committee marked up bipartisan legislation in the 107th and 108th Congresses that included these comprehensive management reforms. The most recent version we approved was H.R. 2548, the Federal Property Asset Management Reform Act of 2003, cosponsored by myself and our ranking member, Henry Waxman.

The bill was delayed because of a debate on its budget impact. The Congressional Budget Office attached a high cost estimate to H.R. 2548, implying that the Federal Government would spend more money by passing the bill than if it did nothing. This, of course, makes little sense; this is about saving money, not spending more of it. Fiscal responsibility requires that we grant agencies alternative property management authority to address this growing problem.

Today we are going to review narrowly tailored draft legislation, language authored by myself and Chairman Nussle of the Budget Committee, to begin addressing these management challenges and combating this inexcusable waste. The draft legislation creates a 5-year pilot program to allow for the expedited disposal of excess, surplus, or underutilized Federal real properties. Under the proposal, 10 eligible properties per year are to be sold for at least fair market value, and the agency affected by the disposal can retain a portion of the proceeds. This creates needed incentives for agencies to deal with unneeded properties.

In addition, the draft legislation codifies provisions from Executive Order 13327. The order borrowed several key provisions from H.R. 2548, such as: the creation of a Senior Real Property Officer; the development of agency asset management plans; the creation of an accurate and updated inventory of all Federal real property; and an emphasis on financial management.

I want to thank Chairman Nussle of the House Budget Committee for ensuring that the Fiscal Year 2006 Budget Resolution provided a $50 million reserve fund to the Government Reform Committee to pay for the pilot program. This fund will allow us to meet CBO's objections under the draft legislation and to prove that real property reform actually saves money.

The committee anticipates that at the end of the 5-year program the pilot will have resulted in considerable savings to the Government, thereby clearing the way for more fundamental real property

reform. Potential net benefits to the Government include improved Federal spaces, lower operating costs, and increased revenue without up-front Federal capital expenditures.

Today we are going to hear from Clay Johnson, the Deputy Director for Management at the Office of Management and Budget, and David Walker, the Comptroller General at the Government Accountability Office. GAO has conducted several studies on the state of Federal real property. Mr. Walker will discuss GAO's evaluation of the underutilization of Federal real property, its rationale for placing this issue on the GAO high risk list, and potential legislation to improve efficient use and sale of excess, surplus or underutilized properties. Mr. Johnson will testify about the administration's experience in dealing with deteriorating and underutilized property and the potential impact of legislation to improve efficient use and sale of excess, surplus or underutilized properties.

We are fortunate to have them both and I look forward to hearing from them.

Also, Mr. Johnson is accompanied by members of the Federal Real Property Council. I want to thank them for joining us here this morning, and appreciate the work that they are doing.

[The prepared statement of Chairman Tom Davis and the text of H.R. 3134 follow:]

Chairman Tom Davis
Opening Statement
"Wasted Space, Wasted Dollars: The Need for Federal Real Property Management Reform"
June 22, 2005
10:00 a.m.
Room 2154 Rayburn House Office Building

Good morning and welcome to the Government Reform Committee's hearing on legislation to address longstanding problems in federal real property management.

The Committee is well aware of the challenges of vacant, underutilized, and deteriorating Federal real property. Federal government agencies control over 3.2 billion square feet of real property assets in the United States and around the world. The federal government spends billions of dollars annually to maintain those properties; yet many federal properties are in disrepair, lack up-to-date technological infrastructure, and pose health and safety threats to workers and visitors.

Out of the 8,000 buildings managed by the General Services Administration (GSA), more than half are 50 years old and are deteriorating. Combined, they require an estimated $5.7 billion in repairs. As a result, agencies are often forced to vacate properties and lease costly space from the private sector.

With few exceptions, agencies do not have incentives to dispose of these excess, surplus, or underutilized properties. For many agencies, revenue-generating sales for real property are not returned to agency capital accounts and therefore reduce incentives for agencies to invest in properties to make them usable. Furthermore, the placement of excess and underutilized federal real property and deteriorating facilities on the Government Accountability Office High Risk Series underscores the need for this hearing.

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version we approved was H.R. 2548, the "Federal Property Asset Management Reform Act of 2003," co-sponsored by myself and Ranking Member Henry Waxman.

The bill was delayed because of a debate on its budget impact. The Congressional Budget Office (CBO) attached a high cost estimate to H.R. 2548, implying that the Federal government would spend more money by passing the bill than if it did nothing. This, of course, makes little sense – this is about saving money, not spending more of it. Fiscal responsibility requires that we grant agencies alternative property management authority to address this growing problem.

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In addition, the draft legislation codifies provisions from Executive Order 13327. The Order borrowed several key provisions from H.R. 2548, such as: (1) the creation of the Senior Real Property Officer; (2) the development of agency asset management plans; (3) the creation of an accurate and updated inventory of all Federal real property; and (4) an emphasis on financial management.

I want to thank Chairman Nussle of the House Budget Committee for ensuring that the FY 2006 Budget Resolution provided a $50 million reserve fund to the Government Reform Committee to pay for the pilot program. This fund will allow us to prove that real property reform saves money. The Committee anticipates that at the end of the five-year program, the pilot will have resulted in considerable savings to the U.S. government, thereby clearing the way for more fundamental real property reform. Potential net benefits to the government include improved federal spaces, lower operating costs, and increased revenue without up-front federal capital expenditures.

Today we will hear from Clay Johnson, the Deputy Director for Management at the Office of Management and Budget, and David M. Walker, the Comptroller General at the Government Accountability Office. GAO has conducted several studies on the state of federal real property. Mr. Walker will discuss GAO's evaluation of the underutilization of federal real property, its rationale for placing this issue on the GAO High Risk Series, and potential legislation to improve efficient use and sale of excess, surplus or underutilized properties. Mr. Johnson will testify about the Administration's experience in dealing with deteriorating and underutilized property and the potential impact of legislation to improve efficient use and sale of excess, surplus or underutilized properties. We're fortunate to have them both, and I look forward to hearing from them.

I

109TH CONGRESS
1ST SESSION

H. R. 3134

To amend title 40, United States Code, to require the Federal Real Property Council to carry out a pilot program for the expeditious disposal of underutilized Federal real property, and to improve the economy and efficiency of Federal real property.

IN THE HOUSE OF REPRESENTATIVES

JUNE 30, 2005

Mr. TOM DAVIS of Virginia (for himself and Mr. NUSSLE) introduced the following bill; which was referred to the Committee on Government Reform

---

A BILL

To amend title 40, United States Code, to require the Federal Real Property Council to carry out a pilot program for the expeditious disposal of underutilized Federal real property, and to improve the economy and efficiency of Federal real property.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Real Property Disposal Pilot Program and Management Improvement Act of 2005".

SEC. 2. TABLE OF CONTENTS.

The table of contents for this Act is as follows:

Sec. 1. Short title.
Sec. 2. Table of contents.

TITLE I—PILOT PROGRAM FOR EXPEDITED DISPOSAL OF FEDERAL REAL PROPERTY

Sec. 101. Federal Real Property Disposal Pilot Program.

TITLE II—IMPROVEMENTS TO ECONOMY AND EFFICIENCY OF FEDERAL REAL PROPERTY

Sec. 201. Improvements to Federal real property management.

TITLE III—GENERAL PROVISIONS

Sec. 301. Definition of underutilized real property.

TITLE I—PILOT PROGRAM FOR EXPEDITED DISPOSAL OF FEDERAL REAL PROPERTY

SEC. 101. FEDERAL REAL PROPERTY DISPOSAL PILOT PROGRAM.

(a) IN GENERAL.—Chapter 5 of subtitle I of title 40, United States Code, is amended by adding at the end the following new subchapter:

"SUBCHAPTER VII—EXPEDITED DISPOSAL OF REAL PROPERTY

"§ 621. Requirement for pilot program

"(a) IN GENERAL.—The Federal Real Property Council shall conduct a pilot program, to be known as the 'Federal Real Property Disposal Pilot Program', under which excess property, surplus property, or underutilized real property shall be disposed of in accordance with this subchapter.

1 **"§ 622. Selection of real properties**

2 "The Federal Real Property Council shall select at
3 least 10 real properties per year owned by executive agen-
4 cies for participation in the pilot program.

5 **"§ 623. Expedited disposal requirements**

6 "(a) REQUIREMENT TO CONDUCT EXPEDITED DIS-
7 POSALS.—

8 "(1) IN GENERAL.—Under the pilot program,
9 the Federal Real Property Council shall direct exec-
10 utive agencies to conduct expedited disposals of the
11 real properties selected pursuant to section 622 of
12 this title.

13 "(2) EXPEDITED DISPOSAL DEFINED.—For
14 purposes of the pilot program, an expedited disposal
15 of a real property is a sale of real property for cash
16 that is conducted pursuant to the requirements of
17 section 545 of this title and that is not subject to—

18 "(A) sections 550 and 553 of this title; or

19 "(B) section 501 of the McKinney-Vento
20 Homeless Assistance Act (42 U.S.C. 11411).

21 "(b) FAIR MARKET VALUE.—A real property may be
22 sold under the pilot program only if the Federal Govern-
23 ment receives not less than 90 percent of the fair market
24 value for the sale, determined in accordance with a method
25 identified by the Council.

1 "(c) MONETARY PROCEEDS; PROHIBITION ON
2 TRANSACTIONS OTHER THAN SALES FOR CASH.—A real
3 property may be sold under the pilot program only if the
4 property will generate monetary proceeds to the Federal
5 Government. A disposal of real property under the pilot
6 program may not include any exchange, trade, transfer,
7 acquisition of like-kind property, or other non-cash trans-
8 action as part of the disposal.

9 **"§ 624. Special rules for deposit and use of proceeds**
10 **from expedited disposals**

11 "(a) DISTRIBUTION REQUIREMENTS.—With respect
12 to the disposal of a real property under the pilot program,
13 the monetary proceeds from the disposal shall be distrib-
14 uted as follows:

15 "(1) 80 percent shall be deposited into the
16 Treasury as miscellaneous receipts.

17 "(2) 10 percent shall be deposited into an ac-
18 count in the Treasury for use for any program or
19 purpose previously authorized by law by any execu-
20 tive agency determined by the Federal Real Property
21 Council to be affected by the disposal, to remain
22 available until expended without further appropria-
23 tion or authorization.

24 "(3) 5 percent shall be deposited into an ac-
25 count in the Treasury for use by the Federal Real

1 Property Council to disburse to local taxing jurisdic-
2 tions affected by the disposal. Funds not disbursed
3 within 90 days after the disposal of the property
4 shall be deposited into the Treasury as miscellaneous
5 receipts.

6 "(4) 5 percent shall be deposited into an ac-
7 count in the Treasury for use by the Federal Real
8 Property Council for such purposes as the Council
9 considers appropriate, including for further study
10 and other costs associated with the disposition of
11 real properties.

12 "(b) LIMITATION.—Proceeds from the disposal of a
13 real property under the pilot program shall not be subject
14 to subchapter IV of this chapter.

15 **"§ 625. Administrative provisions**

16 "(a) USE OF AGENCY FUNDS FOR COSTS OF DIS-
17 POSALS.—Subject to subsection (b), an executive agency
18 may use any amounts otherwise available to the agency
19 for paying the costs to the agency of disposing of real
20 property under the pilot program, including the costs of
21 any of the following:

22 "(1) Site remediation, restoration, or other en-
23 vironmental services.

24 "(2) Relocation of affected tenants and other
25 occupants.

1 "(3) Advertising and marketing.

2 "(4) Community outreach.

3 "(5) Surveying.

4 "(6) Appraisal.

5 "(7) Brokerage.

6 "(8) Historic preservation services.

7 "(9) Title insurance.

8 "(10) Due diligence.

9 "(11) Document notarization and recording
10 services.

11 "(12) Prepayment of up to one year's assessed
12 property taxes.

13 "(13) Any other costs, whether direct or indi-
14 rect, associated with the sale of the property.

15 "(b) LIMITATION ON AMOUNT USED FOR COSTS OF
16 DISPOSALS.—With respect to the disposal of a real prop-
17 erty by an executive agency, the agency may not use
18 amounts, as authorized under subsection (a), for costs as-
19 sociated with the disposal of the property in any amount
20 exceeding 25 percent of the fair market value of the prop-
21 erty.

22 **"§ 626. Termination of pilot program**

23 "The Federal Real Property Disposal Pilot Program
24 shall terminate 5 years after the date of the enactment
25 of this subchapter.".

1 (b) CLERICAL AMENDMENT.—The table of sections
2 at the beginning of chapter 5 of subtitle I of title 40,
3 United States Code, is amended by inserting after the
4 item relating to section 611 the following:

"SUBCHAPTER VII—EXPEDITED DISPOSAL OF REAL PROPERTY

"Sec. 621. Requirement for pilot program.
"Sec. 622. Selection of real properties.
"Sec. 623. Expedited disposal requirements.
"Sec. 624. Special rules for deposit and use of proceeds from expedited disposals.
"Sec. 625. Administrative provisions.
"Sec. 626. Termination of pilot program.".

5 TITLE II—IMPROVEMENTS TO
6 ECONOMY AND EFFICIENCY
7 OF FEDERAL REAL PROP-
8 ERTY

9 SEC. 201. IMPROVEMENTS TO FEDERAL REAL PROPERTY
10 MANAGEMENT.

11 (a) IN GENERAL.—Chapter 5 of subtitle I of title 40,
12 United States Code, is amended by adding at the end the
13 following new subchapter:

14 "SUBCHAPTER VIII—PROPERTY MANAGEMENT
15 GENERALLY

16 **"§ 631. Senior Real Property Officers**

17 "(a) ESTABLISHMENT OF AGENCY SENIOR REAL
18 PROPERTY OFFICER.—The head of each agency listed in
19 paragraphs (1) and (2) of section 901(b) of title 31 shall
20 designate among their senior management officials a Sen-
21 ior Real Property Officer. Such officer shall have the edu-

1 cation, training, and experience required to administer the
2 necessary functions of the position for the agency con-
3 cerned.

4 "(b) AGENCY ASSET MANAGEMENT PLAN RESPON-
5 SIBILITIES.—The Senior Real Property Officer of an
6 agency shall develop and implement an agency asset man-
7 agement planning process that meets the form, content,
8 and other requirements established by the Federal Real
9 Property Council established under section 632 of this
10 title. The initial agency asset management plan shall be
11 submitted to the Office of Management and Budget on
12 a date determined by the Director of the Office of Man-
13 agement and Budget. In developing the plan, the Senior
14 Real Property Officer shall—

15 "(1) identify and categorize all real property
16 owned, leased, or otherwise managed by the agency,
17 including, where applicable, those properties outside
18 the United States in which the lease agreements and
19 arrangements reflect the host country currency or
20 involve alternative lease plans or rental agreements;

21 "(2) identify and pursue goals, with appropriate
22 deadlines, consistent with and supportive of the
23 agency's asset management plan and measure
24 progress against such goals; and

1 "(3) identify any other information and pursue
2 any other actions necessary to the appropriate devel-
3 opment and implementation of the agency asset
4 management plan.
5 "(c) MONITORING OF ASSETS.—The Senior Real
6 Property Officer of an agency shall be responsible, on an
7 ongoing basis, for monitoring the real property assets of
8 the agency so that agency assets are managed in a manner
9 that is—
10 "(1) consistent with, and supportive of, the
11 goals and objectives set forth in the agency's overall
12 strategic plan under section 306 of title 5;
13 "(2) consistent with the real property asset
14 management principles developed by the Federal
15 Real Property Council established under section 632
16 of this title; and
17 "(3) reflected in the agency asset management
18 plan.
19 "(d) PROVISION OF INFORMATION.—The Senior Real
20 Property Officer of an agency shall, on an annual basis,
21 provide to the Director of the Office of Management and
22 Budget and the Administrator of General Services the fol-
23 lowing:
24 "(1) Information that lists and describes real
25 property assets under the jurisdiction, custody, or

1 control of that agency, except for classified informa-
2 tion.
3 "(2) Any other relevant information the Direc-
4 tor of the Office of Management and Budget or the
5 Administrator of General Services may request for
6 inclusion in the inventory database established under
7 section 634 of this title.

8 **"§ 632. Federal Real Property Council**

9 "(a) ESTABLISHMENT OF COUNCIL.—There shall be
10 a Federal Real Property Council, within the Office of
11 Management and Budget for administrative purposes, to
12 develop guidance for, and facilitate the success of, each
13 agency's asset management plan. The Council shall be
14 composed exclusively of all agency Senior Real Property
15 Officers, the Controller of the Office of Management and
16 Budget, the Administrator of General Services, and any
17 other full-time or permanent part-time Federal officials or
18 employees as deemed necessary by the Chairman of the
19 Council. The Deputy Director for Management of the Of-
20 fice of Management and Budget shall also be a member
21 and shall chair the Council. The Office of Management
22 and Budget shall provide funding and administrative sup-
23 port for the Council, as appropriate.
24 "(b) AGENCY ASSET MANAGEMENT PLANS.—

1 "(1) IN GENERAL.—The Council shall provide
2 guidance to the Senior Real Property Officers in the
3 development and implementation of the agency asset
4 management plans.

5 "(2) PERFORMANCE MEASURES.— The Council
6 shall work with the Administrator of General Serv-
7 ices to establish appropriate performance measures
8 to determine the effectiveness of Federal real prop-
9 erty management. Such performance measures shall
10 include, but are not limited to, evaluating the costs
11 and benefits involved with disposing of Federal real
12 properties at particular agencies. Specifically, the
13 Council shall consider, as appropriate, the following
14 performance measures:

15 "(A) The cost and time required to dispose
16 of Federal real property assets and the financial
17 recovery of the Federal investment resulting
18 from the disposal.

19 "(B) Changes in the amounts of vacant
20 Federal space.

21 "(C) The enhancement of executive agency
22 productivity through an improved working envi-
23 ronment.

24 "(3) DESIGN OF PERFORMANCE MEASURES.—
25 The performance measures shall be designed to en-

1 able the heads of executive agencies to track
2 progress in the achievement of Government-wide
3 property management objectives, as well as allow for
4 comparing the performance of executive agencies
5 against industry and other public sector agencies.

6 "(c) BEST PRACTICES CLEARINGHOUSE.—The Coun-
7 cil shall serve as a clearinghouse for executive agencies
8 for best practices in evaluating actual progress in the im-
9 plementation of real property enhancements. The Council
10 shall also work in conjunction with the President's Man-
11 agement Council to assist the efforts of the Senior Real
12 Property Officials and the implementation of agency asset
13 management plans.

14 "(d) FUND.—The Council may use amounts in the
15 fund referred to in section 624(4) of this title for such
16 purposes as the Council considers appropriate for carrying
17 out its responsibilities.

18 "(e) MEETINGS.—The Council shall hold meetings
19 not less often than once a quarter each fiscal year.

20 **"§ 633. Inventory database**

21 "(a) DATABASE.—The Administrator of General
22 Services (in this section referred to as the 'Adminis-
23 trator'), in consultation with the Federal Real Property
24 Council, shall establish and maintain a single, comprehen-
25 sive, and descriptive database of all real property under

1 the custody and control of all executive agencies, other
2 than real property excluded for reasons of national secu-
3 rity. The Administrator shall collect from each executive
4 branch agency such descriptive information, except for
5 classified information, as the Administrator considers will
6 best describe the nature, use, and extent of the real prop-
7 erty holdings of the Federal Government.

8 "(b) STANDARDS.—The Administrator, in consulta-
9 tion with the Council, may establish data and other infor-
10 mation technology standards for use by executive agencies
11 in developing or upgrading executive agency real property
12 information systems in order to facilitate reporting on a
13 uniform basis. Those agencies with particular information
14 technology standards and systems in place and in use shall
15 be allowed to continue with such use to the extent that
16 they are compatible with the standards issued by the Ad-
17 ministrator.

18 "(c) JURISDICTION OF ADMINISTRATOR.—Except for
19 the purpose of maintaining the database required under
20 this section, nothing in this section authorizes the Admin-
21 istrator to assume jurisdiction over the acquisition, man-
22 agement, or disposal of real property not subject to this
23 chapter.

24 "(d) LIST OF UNDERUTILIZED FEDERAL REAL
25 PROPERTIES.—

1 "(1) REQUIREMENT.—The head of each execu-
2 tive agency shall—
3 "(A) identify all underutilized properties
4 under the custody and control of that agency;
5 and
6 "(B) submit a list describing the underuti-
7 lized properties to the Federal Real Property
8 Council.
9 "(2) CONTENTS OF LIST.—The list submitted
10 under paragraph (1)(B) shall include information
11 about the location, nature, and use of the property,
12 and may be included in the database required under
13 this section.
14 "(3) USE OF LIST.—Each executive agency
15 shall use the list submitted for the agency under this
16 subsection to help in determining whether a property
17 is excess property under this chapter.".
18 (b) CLERICAL AMENDMENT.—The table of sections
19 at the beginning of chapter 5 of subtitle I of title 40,
20 United States Code, is amended by inserting after the
21 item relating to section 626, as added by title I, the fol-
22 lowing:

"SUBCHAPTER VIII—PROPERTY MANAGEMENT GENERALLY

"Sec. 631. Senior Real Property Officers.
"Sec. 632. Federal Real Property Council.
"Sec. 633. Inventory database.".

TITLE III—GENERAL PROVISIONS

SEC. 301. DEFINITION OF UNDERUTILIZED REAL PROPERTY.

Section 102 of title 40, United States Code, is amended by adding at the end the following new paragraph:

"(11) The term 'underutilized real property' means real property under the control of a Federal agency, with or without improvements, that meets 1 or more of the following criteria:

"(A) The property is occupied by 10 or fewer employees of the Federal Government or a contractor of the Federal Government.

"(B) 50 percent or less of the building space is occupied by the executive agency.

"(C) The property has improvements that occupy 25 percent or less of the land.

"(D) The property is unutilized, meaning it is vacant or not occupied for current program purposes.".

○

Chairman TOM DAVIS. I now recognize our distinguished ranking member, Mr. Waxman, for his opening statement.

Mr. WAXMAN. Thank you, Mr. Chairman, for holding this important hearing on Federal real property management. Our committee has been a leader in focusing the spotlight on the deficiencies that exist in real property management and attempting to find bipartisan solutions to these difficult issues. I am glad you are being persistent in trying to overcome some of the bureaucratic hurdles that stand in the way of fixing these vexing problems.

We are here today to examine the very genuine, costly and pressing problems the Federal Government has managing its real property, its public buildings and lands. As GAO has indicated by placing this issue on its "high risk" list, problems abound. Unneeded and underused buildings are in the Federal inventory. Some buildings are literally falling apart. Accurate data on Federal real property is hard to obtain from agencies, and costly leasing of office space is too often the quick answer.

These are far from trivial problems. In fact, they are costing the Federal Government and the American taxpayer billions of dollars. We are spending $3 to $4 billion a year on buildings we don't need. In addition, the amount of money required to bring needed Federal facilities up to minimally accepted standards is truly staggering, properly close to $100 billion.

Last year the administration issued an Executive order in an attempt to address some of these issues. The order established the position of Senior Real Property Officer in all major executive agencies, created an interagency Federal Real Property Council, and directed the Administrator of GSA to establish and maintain a single, comprehensive database of all Federal real property. These steps should help bring needed information and focus to this problem within the executive branch.

Chairman Davis plans to introduce a bill that attempts to deal with some of these problems in Federal real property management. In addition to codifying last year's Executive order, his bill would create a pilot program with the aim of encouraging the executive branch agencies to dispose of properties which they no longer need to perform their missions. While this is a worthy goal, I am troubled by some of the methods the bill uses to attain this goal.

Drafts of that legislation that I have seen contain a number of troubling provisions. First, under the pilot, excess property at one agency could be sold without an assessment of whether another agency might want it. I am not sure that is a very good way to manage Federal property.

Second, the pilot requires at least 10 properties per year for 5 years to be sold using expedited processes. There is no upper limit, so under this pilot the expedited process could become the standard.

Finally, the pilot waives provisions of the McKinney homeless assistance act and the Federal Property Act that give homeless providers and State and local governments a first crack at surplus properties at a discounted price if the properties will be used for certain defined public benefits. I question the merits of allowing such a waiver, and I think State and local governments and home-

less providers should have the opportunity to put their positions on the issue on the record.

That being said, the Chair is committed to working with the minority to address some of these concerns, and I hope at the end of the day we have a bill that everyone can support.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Henry A. Waxman follows:]

Statement of
Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Hearing on "Wasted Space, Wasted Dollars: The Need for Federal Real Property Management Reform

June 22, 2005

Thank you Mr. Chairman for holding this important hearing on federal real property management. Our Committee has been a leader in focusing the spotlight on the deficiencies that exist in real property management and attempting to find bipartisan solutions to these difficult issues. I am glad you are being persistent in trying to overcome some of the bureaucratic hurdles that stand in the way of fixing these vexing problems.

We are here today to examine the very genuine, costly and pressing problems the federal government has managing its real property – its public buildings and lands. As GAO has indicated by placing this issue on it "high risk" list, problems abound. Unneeded and under-used buildings are in the federal inventory. Some buildings are literally falling apart. Accurate data on federal real property is hard to obtain from agencies, and costly leasing of office space is too often the quick answer.

These are far from trivial problems. In fact, they are costing the federal government and the American taxpayer billions of dollars. We are spending 3 to 4 billion dollars a year on buildings we don't need. In addition, the amount of money required to bring needed federal facilities up to minimally acceptable standards is truly staggering – probably close to $100 billion.

Last year the Administration issued an executive order in an attempt to address some of these issues. The order established the position of Senior Real Property Officer in all major executive agencies, created an interagency Federal Real Property Council, and directed the Administrator of GSA to establish and maintain a single, comprehensive database of all federal real property. These steps should help bring needed information and focus to this problem within the executive branch.

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That being said, the Chair has committed to working with the minority to address some of these concerns, and I hope at the end of the day we have a bill that everyone can support.

Thank you Mr. Chairman.

Chairman TOM DAVIS. Mr. Waxman, thanks. Let me just say this is draft legislation. We are going to be hearing from a lot of people, and I welcome your input as we move forward. On the issue of the McKinney act and the exemption we have carved out, let me just say I look forward to working with you to try some satisfactory balance to this.

For the record, I started the first shelter for the homeless out in Fairfax County, at Baileys Crossroads. In fact, there are two shelters that we championed out there. I am committed to this, but I also recognize that, as we move this legislation forward on a trial basis, we want to make sure we get input from all the stakeholders, and hopefully we can work out something that works for everybody.

We have to remember that if nothing happens on this, that if no property is disposed of, the homeless get nothing. So hopefully we can work through and they can have some input into this process. I am concerned about the rigidity of the McKinney act and a pilot program, and what that would do to it.

But if we can work together, hopefully we can find some satisfactory balance, and I look forward to your concern on this issue, and Mr. Shays' concern, Ms. Norton's and others, as we more forward to see if we can have a pilot program that works, but at the same time make sure that some of these other groups are included in the process.

Any other opening statements on this side?

Ms. NORTON. Mr. Chairman.

Chairman TOM DAVIS. Ms. Norton.

Ms. NORTON. Mr. Chairman, I applaud your effort here to deal with the tremendous waste of real property lying idle throughout the United States. I am not sure how much of it is useful, but a lot of it surely must be. And the Executive order begins to develop a database so that we at least know what we are talking about here.

I am ranking member of a subcommittee on another committee, and appreciate especially your effort because a fair amount of this unused land had been in the District, and the Southeast Federal Center, 5 minutes from the Capitol, is perhaps the best example of the use of Federal property now for the benefit of the Federal Government and, as it turns out, for the benefit of the local jurisdiction.

The Federal Government continues to own the land, but the land is being privately developed. That is only one approach, but it is certainly an approach that everybody can see with their own eyes, that the most valuable land perhaps on the East coast was lying there on the Anacostia River unused, and now there is much construction going up there, to the benefit of all concerned.

Mr. Chairman, there is another novel bill that I have introduced, and I have asked your staff for feedback, and I ask once again for feedback. This bill combines a bill on which you are a co-sponsor with me with the District of Columbia's need for completely, totally unused Federal land for 150 years, land, again, very close to the Capitol, near RFK Stadium, where the General Hospital has been, where the prison has been, a very large plot of land, 150 years the District has had administrative use of. It can't do what needs to

be done on the land, highest and best use, because it doesn't own the land, and the Federal Government is right not simply to transfer ownership of Federal land to whoever wants it.

That and another parcel of park land, also unused since the District was created, where the District wants to make use of it, I have put into a bill that would transfer that land to the District of Columbia in exchange and partial payment for what the GAO says is owed to the District because of a structural deficit. And I would like to have some feedback on that, which is another way to deal with getting the highest and best use for Federal land, which the Federal Government does not need, would be paid for in-kind, and yet another approach.

I am always searching for such approaches, and, therefore, I appreciate that you have come forward with this pilot program. I would like to raise a few questions, some of which have been raised by the ranking member. I have not had an opportunity to look at the bill. It says that the land would be sold for 90 percent of market value. Why not sell it for market value? If the market value is low, then that is what it sells for. If the market value is above what we thought it was, that is what it sells for. So I didn't understand the 90 percent. If that could be clarified.

I join the ranking member on the concern about jumping over the public benefit, wiping out the public benefit sections. He has spoken of McKinney, you have spoken of McKinney, but I want to say, Mr. Chairman, that one of the most important reasons for the public benefit section is that local jurisdictions themselves can get this land at a much reduced price or trade for use as libraries, hospitals, or other public benefits. They can't just flip it and use it for market matters, for ordinary commercial matters. And I think that there are many local jurisdictions in the United States that would wonder why that right would somehow be lost to them in this local matter.

I think I would like to look at the legislation. I have to assume that there would be an auction to the highest bidder. When it says that this Council will select the properties, I am assuming that they would be sold in the same way that everything in the Federal Government has to be done, by competitive bidding, although you hadn't mentioned that, and I just have to assume that is the case.

I didn't understand why this Federal Property Council——

Chairman TOM DAVIS. Mr. Walker has limited time today to appear before us.

Ms. NORTON. Mr. Chairman, I am almost finished.

Chairman TOM DAVIS. All right.

Ms. NORTON [continuing]. Was going to select the land. And if there is money, I would hope that it would be used to repair some of this dilapidated property.

And I thank you for your indulgence, Mr. Chairman.

Chairman TOM DAVIS. All right, thank you.

Let me just quickly note we are waiting for the GSA to give us an inventory of the Federal properties in the District, and at that point I think we can have a fruitful discussion over what the Government might do and what the D.C. government might do with it. I have some strong views on how the city ought to have that. I know Ms. Norton does, the Mayor does, and hopefully we can move

forward and this will be something that will be very helpful to the city over the long term.

Gentleman from Tennessee.

Mr. DUNCAN. Mr. Chairman, I will be very quick. First of all, in the materials we have been provided, it is upsetting, or should be upsetting to everyone, to hear that the Department of Defense is paying $3 to $4 billion a year just for the maintenance of unneeded facilities. And also that the GSA estimates that the Federal Government has thousands of buildings that are deteriorating and that it will cost tens of billions of dollars to make them fully functional again.

I know also from my service on another committee that the BLM has identified 3.3 million acres of land that they identify as surplus that they would like to get rid of, but there are some of these groups that just oppose it any time the Federal Government wants to dispose of any land. In fact, they want the Government to take over more. All politicians want to create parks, and that sounds good, but our parks are very underused for the most part, and that takes land off the tax rolls and makes it harder on the remaining property that is on the tax rolls.

I know also from my service on the Public Building Subcommittee the most underused space in the Federal inventory is in Federal courthouses. I had a member of the other body, the Senate, say to me one time that you could shoot a gun at 3 p.m., down the hall in almost every Federal courthouse in the country and probably not hit anybody. I thought of that recently when I read in the Tennessee Bar Journal that the average Federal judge tried 40 jury trials a year in 1960, and now they try about 12 a year. Yet, you very seldom can get judges to share court space.

Also, I remember when the Secret Service wanted to build a new headquarters, they were going to pay $70,723,000 for one-third of an acre in downtown Washington, when there were nine other parcels of property all within the parameters of where they needed the building that were between $10 and $30 million. We did get them to agree to knock $50 million off the price of the building by removing some of the gyms and kitchens and so forth, but they agreed to that if we would let them go ahead and still buy the $70 million, one-third of an acre property.

So there are a lot of bad deals here, there is a lot of waste and inefficiency, and I am certainly pleased that you are looking into this. Thank you very much.

Chairman TOM DAVIS. Thank you very much. I appreciate the gentleman's comments.

I think we are ready to move to our first panel.

Members will have 7 days to submit opening statements for the record.

I will now recognize our distinguished panel, the Honorable Clay Johnson, Deputy Director for Management, Office of Management and Budget; and David Walker, Comptroller General of the Government Accountability Office.

It is our policy we swear you in before you testify, so if you would just rise and raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. First, thank you very much for being here. You have both given this a lot of thought and we appreciate your being here. Give your opening statements and we will move to questions. Thank you.

Mr. Johnson, we will start with you.

STATEMENTS OF CLAY JOHNSON, DEPUTY DIRECTOR OF MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; AND DAVID M. WALKER, COMPTROLLER GENERAL, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF CLAY JOHNSON

Mr. JOHNSON. Mr. Chairman, members of the committee, thank you for having us up here.

The Federal Government thinks it owns $300 billion or so of real property, but we are not sure. We do know for sure that we have a lot of property that we don't need, and we have a lot of property that we do need, but it also needs to be improved. And I think dealing with one of those matters will help us deal with the other.

We had the President issue an Executive order last year to deal with this matter, and we are delighted that you are attempting to codify this with this legislation. There is more interest in the executive branch on this issue of real property than just about any other management issue we are tackling.

The Federal Real Property Officers, the agency leadership, the Federal Real Property Council is about as energized a bunch of people on this subject as anything else we are working on, and obviously there is a lot of interest in this committee and in both the House and Senate in general. It is something that needs to be taken care of, and with the help of this legislation and the work of the Real Property Officers and Real Property Council and other legislation, we will take care of this. This is not brain surgery; this just requires a lot of dedication, a lot of attention to detail, and we are all in the process of doing that.

Our Executive order a year ago attempted to assign agency accountability for real property by the assignment of Real Property Officers in each agency and the creation of a real property initiative with the President's management agenda, so we are monitoring and holding agencies accountable for their performance in these matters with our well-used score card—red, yellow, green. We attempted to provide a Government-wide perspective on this matter, which we have done by creating the Real Property Officers Council.

We are working hard to develop this inventory which you talked about. We have performance measures that we have agreed to that we are in the process of developing metrics for each of the properties. And then once we have some information about all these properties, each agency will be challenged to put together a real property plan about what they intend to do to bring sensibility and fiscal accountability for the real property inventories.

This legislation is actually probably a little bit ahead of us in that this calls for specific corrective opportunities or corrective provisions, and we can't really tell you yet—we are probably a year or so away—what we would do with these flexibilities. But it is a

great time for us all to come together and start talking about these things because this is a big problem, a big opportunity, both.

So I applaud your efforts, sir, and the committee, and look forward to working with you in the future.

[The prepared statement of Mr. Johnson follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF **MANAGEMENT** AND BUDGET
WASHINGTON, D.C. 20503

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

before the

House Committee on Government Reform

June 22, 2005

The Administration has established a clear vision and roadmap for improving the management of Federal real property – identify all assets; analyze their utility and performance; improve or dispose of excess or underperforming assets.

Achieving this vision will result in real, measurable benefits to taxpayers. The Federal inventory is estimated to exceed $300 billion, meaning that disposing of merely 5% of our current portfolio could potentially make more than $15 billion available for more productive uses. In addition, the Federal government can serve the American people more effectively when mission critical assets are maintained in the right condition and at the right cost to support agency objectives.

The steps we are taking to ensure such results are embodied in Executive Order 13327, "Federal Real Property Asset Management" (February 4, 2004). Based on that Order, Federal agencies have appointed a Senior Real Property Officer accountable for asset management within each Federal agency. The Senior Real Property Officers, in turn, make up the Federal Real Property Council (FRPC), which quickly established government-wide requirements for building an inventory, assessing performance, and rightsizing through improved asset planning.

- Building an Inventory. The FRPC established 23 commonly defined data elements and established a goal that all Federal agencies will report this data for all assets beginning in the first quarter of Fiscal Year 2006. Under the guidance and direction of the FRPC, the General Services Administration (GSA) is preparing a government-wide inventory database to capture the data when it is reported this fall.

- Assessing Performance. The 23 data elements include information on the operating cost, condition, utilization, and mission dependency of each asset. Using this information, Federal agencies and policymakers will be able to determine which Federal properties should be maintained, which require cost-effective repairs and upgrades, and which qualify for disposition.

- Rightsizing through Improved Asset Planning. Each agency is establishing a formal Asset Management Plan that details how the agency will make improved decisions on acquisition, maintenance, and disposal of all assets. Notably, some agencies, such as the Department of Veterans Affairs, have enhanced flexibility to manage and dispose of assets. These agencies are successfully using these flexibilities to implement their Asset Management Plan objectives.

Each of these activities is being tracked by the President's Management Agenda, with all major landholding agencies graded quarterly since the third quarter of Fiscal Year 2004 on their efforts to implement FRPC requirements. In the past year, agencies have made great strides in improving knowledge of their inventory and measuring performance, and are beginning to better understand what flexibilities are needed to facilitate rightsizing of their real property portfolios.

Once we have a fuller understanding of the Federal inventory, we can more comprehensively identify the specific government-wide flexibilities that are needed to help maximize the value of the government's property. In the meantime, it would be useful for the Executive Branch to have limited enhanced property disposal authority, including the establishments of agency-specific funds for retention of sales proceeds, so it can demonstrate the benefits and need for broader flexibility to dispose of property.

I know the Congress shares the Administration's goal for improved management of our Federal property inventory and look forward to working with this Committee to help achieve that goal.

Chairman TOM DAVIS. Thank you very much, Mr. Johnson.

Comptroller Walker.

STATEMENT OF DAVID M. WALKER

Mr. WALKER. Thank you, Mr. Chairman. It is a pleasure to be before the House Government Reform Committee. I would respectfully request that my entire statement be entered into the record.

Chairman TOM DAVIS. Without objection.

Mr. WALKER. I will just hit the highlights right now.

I appreciate being able to visit with you regarding the issue of Federal real property. As you know, GAO designated this area as a high risk area in January 2003. There are a number of reasons that we designate it as a high risk area. It is currently estimated that the Federal Government owns over $300 billion in real property assets in all 11 Federal regions. For example, the DOD alone spends $3 to $4 billion a year in maintaining properties that it believes it does not need. Other agencies are also spending money as well.

I think it is important to note, as contained in our recent 21st Century Challenges document that has been provided to every member of this committee, that this is another example of how much the Federal Government is based upon conditions that existed in the 1950's and the 1960's. Our current Federal real property is based upon organizational models of the 1950's. It does not give appropriate consideration to the advancements in technology and transportation systems since the 1950's, and it also does not give due consideration to our needs to safeguard and protect Federal properties because of the increased risk of terrorism since the 1950's.

As has been noted, a number of these Federal properties are in a state of deterioration; there are large and growing deferred maintenance costs. There has been progress made since we designated this as a high risk area. As Clay Johnson has noted, the President has taken action by issuing an Executive order, by creating the Real Property Council, and by asking that Council and other responsible parties to take a number of steps. And I do note, as Clay did, that your proposed legislation would codify the Executive order, as well as address a number of other issues.

In summary, I think enabling legislation is needed. There are a number of positive aspects of this draft legislation that I would be happy to share with the committee in the question and answer period. There are a few areas that I would ask you to consider in addition to what you already have, which I can cover in the Q&A.

But the bottom line is this: we need to make progress in this area for several reasons. No. 1, to save money. Not only not to spend money on things that we don't need, but to obtain the economic value of assets that we don't need. Second, to enhance the safety and security of Federal properties and those that are in those properties and around those properties. And, third, to promote economic development.

There are three major benefits to making progress in this area, and it would be a very positive step toward trying to realign our Government to recognize 21st century realities if progress could be made in this area.

Thank you, Mr. Chairman and members of the committee.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

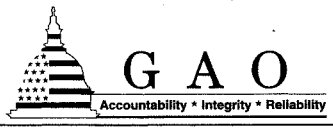
Testimony
Before the House Committee on Government Reform

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, June 22, 2005

FEDERAL REAL PROPERTY

Further Actions Needed to Address Long-standing and Complex Problems

Statement of David M. Walker, Comptroller General of the United States



GAO-05-848T

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-848T, a testimony before the House Committee on Government Reform

Why GAO Did This Study

In January 2003, GAO designated federal real property as a high-risk area due to long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space challenges. Federal agencies were also facing many challenges protecting their facilities due to the threat of terrorism.

This testimony discusses the problems with federal real property, particularly those relating to excess and deteriorating property, and what needs to be done to address them.

What GAO Recommends

Since January 2003, some important efforts to address the problems have been initiated by the administration and executive agencies, including Presidential Executive Order 13327 on real property reform.

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

www.gao.gov/cgi-bin/getrpt?GAO-05-848T.

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

June 22, 2005

FEDERAL REAL PROPERTY

Further Actions Needed to Address Long-standing and Complex Problems

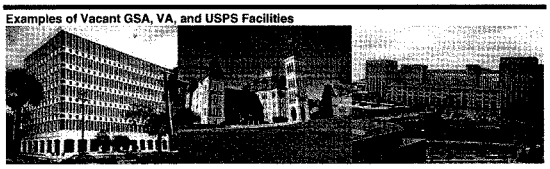
What GAO Found

The federal real property portfolio is vast and diverse—over 30 agencies control hundreds of thousands of real property assets worldwide, including facilities and land worth hundreds of billions of dollars. Unfortunately, many of these assets are no longer effectively aligned with, or responsive to, agencies' changing missions. Further, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing, instead of ownership, to meet new needs, and the cost and challenge of protecting these assets against terrorism.

In February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed Executive Order 13327. The order requires senior real property officers at specified executive branch departments and agencies to, among other things, prioritize actions needed to improve the operational and financial management of the agency's real property inventory. A new Federal Real Property Council at OMB has developed guiding principles for real property asset management and is also developing performance measures, a real property inventory database, and an agency asset management planning process. In addition to these reform efforts, some agencies such as the Departments of Defense (DOD) and Veterans Affairs (VA) have made progress in addressing long-standing federal real property problems. For example, DOD is preparing for a round of base realignment and closures in 2005. Also, in May 2004, VA announced a wide range of asset realignment decisions.

These and other efforts are positive steps, but it is too early to judge whether the administration's focus on this area will have a lasting impact. The underlying conditions and related obstacles that led to GAO's high-risk designation continue to exist. Remaining obstacles include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to optimal, businesslike, real property decisions, and the need for better capital planning among agencies.

Examples of Vacant GSA, VA, and USPS Facilities



Sources (from left to right): Ernst & Young LLP, VA, and USPS.
From left to right: L. Mendel Rivers Building, Charleston, SC; former Main VA Hospital Building, Milwaukee, WI; former Main Post Office, Chicago, IL.

Mr. Chairman and Members of the Committee:

We welcome the opportunity to testify on the actions that are needed to address the long-standing and complex problems that led to our designation of federal real property as a high-risk area. As you know, at the start of each new Congress since 1999, we have issued a special series of reports, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, we designated federal real property a high-risk area as part of this series, and we issued an update on this area in January 2005.[1] My testimony is based on our January 2003 and January 2005 high-risk reports and other GAO reports on real property issues. My testimony focuses on the problems with federal real property, particularly those relating to excess and deteriorating property, and what needs to be done to address them.

Summary

As we reported in February 2005, the physical footprint of agencies is outmoded, which reflects the failure to take advantage of opportunities provided by new technology to modernize operations and the changing nature of agencies' missions.[2] More than 30 federal agencies control about $328 billion in real property assets worldwide, and maintain a "brick and mortar" buildings and/or office presence in 11 regions across the nation. But this organization and infrastructure reflects a business model and the technological and transportation environment of the 1950s. Many of these assets and organizational structures are no longer needed; others are not effectively aligned with, or responsive to, agencies' changing missions; and many assets are in an alarming state of deterioration, potentially costing taxpayers tens of billions of dollars to restore and repair. In addition, federal agencies face problems with their real property data and protecting their facilities due to the threat of terrorism.

Since our designation of this area as high-risk in January 2003, some important efforts to address these problems have been initiated by the

[1]GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.; Jan. 2003); the report on real property is a companion to GAO's 2003 high-risk update, GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: Jan. 2003); and GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.; Jan. 2005); these reports are intended to help the new Congress focus its attention on the most important issues and challenges facing the federal government.

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

administration and executive agencies, including a Presidential Executive Order[3] on real property reform and the Office of Management and Budget's (OMB) development of guiding principles for real property asset management. The executive order is clearly a positive step. However, it has not been fully implemented, and further actions are necessary to address the underlying problems and related obstacles, including competing stakeholder interests in real property decisions and legal and budget-related disincentives to optimal, businesslike, real property decisions. GAO continues to believe that there is a need for a comprehensive transformation strategy for real property to build upon the executive order. More specifically, the additional step of developing a transformation strategy would provide decisionmakers with a road map of actions for addressing the underlying obstacles, assessing progress governmentwide, and for enhancing accountability for related actions.

If actions resulting from the transformation strategy and other efforts address the long-standing problems are effectively implemented, agencies will be better able to recover asset values, reduce operating costs, improve facility conditions, enhance security and safety, recruit and retain employees, and achieve mission effectiveness. Realigning the government's real property, taking into consideration the future federal role, likely organizational structure, geographic presence, and workplace needs, will be critical to improving the government's performance and ensuring accountability within expected resource limits.

The Federal Real Property Environment

The federal real property environment has many stakeholders and involves a vast and diverse portfolio of assets that are used for a wide variety of missions. Real property is generally defined as facilities; land; and anything constructed on, growing on, or attached to land. According to its fiscal year 2003 financial statements, the federal government currently owns billions of dollars in real property assets. The Department of Defense (DOD), U.S. Postal Service (USPS), the General Services Administration (GSA), and the Department of Veterans Affairs (VA) hold the majority of the owned facility space.

Federal real property managers operate in a complex and dynamic environment. Numerous laws and regulations govern the acquisition, management, and disposal of federal real property. The Federal Property

[3]Presidential Executive Order 13327, Feb. 6, 2004.

and Administrative Services Act of 1949, as amended (Property Act), and the Public Buildings Act of 1959, as amended, are the laws that generally apply to real property; and GSA is responsible for the acts' implementation.[4] Agencies are subject to these acts, unless they are specifically exempted from them, and some agencies may also have their own statutory authority related to real property. Agencies must also comply with numerous other laws related to real property.

The Federal Government Has Many Assets it Does Not Need

Despite significant changes in the size and mission needs of the federal government in recent years, the federal portfolio of real property assets in many ways still largely reflects the business model and technological environment of the 1950s and faces serious security challenges. In the last decade alone, the federal government has reduced its workforce by several hundred thousand personnel, and several federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general-purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. The advent of electronic government is starting to change how the public interacts with the federal government. These changes will have significant implications for the type and location of property needed in the 21st century. Furthermore, changes in the overall domestic security environment have presented an additional range of challenges to real property management that must be addressed.

One reason the government has many unneeded assets is that some of the major real property-holding agencies have undergone significant mission shifts that have affected their real property needs. For example, after the Cold War, DOD's force structure was reduced by 36 percent. Despite several rounds of base closures, DOD projects that it still has considerably more property than it needs. The National Defense Authorization Act for Fiscal Year 2002, gave DOD the authority for another round of base realignments and military installation closures in 2005.

[4]For the Property Act, see 40 U.S.C. § 101 et. seq.; the Property Act excludes certain types of property, such as public domain assets and land reserved or dedicated for national forest or national park purposes; for the Public Buildings Act, see 40 U.S.C. § 3301 et. seq.

In addition, various factors may significantly reduce the need for real property held by USPS. These factors include new technologies, additional delivery options, and the opportunity for greater use of partnerships and retail co-location arrangements. A July 2003 Presidential Commission report on USPS stated, among other things, that USPS had vacant and underutilized facilities that had little, if any, value to the modern-day delivery of the nation's mail.[5] In April 2005 we reported that USPS faces future financial challenges due to its declining First-Class Mail volume and has excess capacity in its current infrastructure that impedes efficiency gains.[6] USPS has stated that one way to increase efficiency is to realign its processing and distribution infrastructure.

In the mid-1990s, VA began shifting its role from being a traditional hospital-based provider of medical services to an integrated delivery system that emphasizes a full continuum of care with a significant shift from inpatient to outpatient services. Subsequently, VA has struggled to reduce its large inventory of buildings, many of which are underutilized or vacant.

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

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

[6]GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2005).

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

The Federal Portfolio Is in an Alarming State of Deterioration

Restoration, repair, and maintenance backlogs in federal facilities are significant and reflect the federal government's ineffective stewardship over its valuable and historic portfolio of real property assets. The state of deterioration is alarming because of the magnitude of the repair backlog—current estimates show that tens of billions of dollars will be needed to restore these assets and make them fully functional. This problem has accelerated in recent years because much of the federal portfolio was constructed over 50 years ago, and these assets are reaching the end of their useful lives. As with the problems related to underutilized or excess property, the challenges of addressing facility deterioration are also prevalent at major real property-holding agencies. In recent discussions, a GSA official said that its $5.7 billion backlog, which we reported in 2003, has grown to between $6 and $7 billion.[7] In recognition of the importance of addressing deferred maintenance, federal accounting standards require agencies to report deferred maintenance as supplementary information in their financial statements. As of September 30, 2004, the government's consolidated financial statements showed a deferred maintenance cost range of $13.4 billion to $25.3 billion for the asset category General Property, Plant, and Equipment—which includes federal real property.

Over the last decade, DOD reports that it has been faced with the major challenge of adequately maintaining its facilities to meet its mission requirements. In February 2003, we reported that although the amount of money the active forces have spent on facility maintenance had increased recently, DOD and service officials said that these amounts had not been sufficient to halt the deterioration of facilities.[8] Too little funding to adequately maintain facilities is also aggravated by DOD's acknowledged retention of facilities in excess of its needs.

[7]GAO-03-122.

[8]GAO, *Defense Infrastructure: Changes in Funding Priorities and Strategic Planning Needed to Improve the Condition of Military Facilities*, GAO-03-274 (Washington, D.C.: Feb. 19, 2003).

Our work over the years has shown that the deterioration problem leads to increased operational costs, has health and safety implications that are worrisome, and can compromise agency missions. In addition, we have reported that the ultimate cost of completing delayed repairs and alterations may escalate because of inflation and increases in the severity of the problems caused by the delays.[9] As discussed above, the overall cost could also be reduced by government realignment. That is, to the extent that unneeded property is also in need of repair, disposing of such property could reduce the repair backlog. Another negative effect, which is not readily apparent but nonetheless significant, is the effect that deteriorating facilities have on employee recruitment, retention, and productivity. This human capital element is troublesome because the government is often at a disadvantage in its ability to compete in the job market in terms of the salaries agencies are able to offer. Poor physical work environments exacerbate this problem and can have a negative impact on potential employees' decisions to take federal positions. Furthermore, research has shown that quality work environments make employees more productive and improve morale. Finally, as with excess or underutilized property, deteriorated property presents a negative image of the federal government to the public. This is particularly true when many of the assets the public uses and visits the most—such as those at national parks and museums—are not well maintained or in generally poor condition.

Other Long-standing Problems Continue to Exist

As we reported in October 2003, in addition to the difficulties with excess and deteriorated property, the federal government faces other long-standing real property-related problems.[10] For example, there is a lack of reliable and useful real property data that are needed for strategic decision-making. In April 2002, we reported that the government's only central source of descriptive data on the makeup of the real property inventory, GSA's worldwide inventory database and related real property reports, contained data that were unreliable and of limited usefulness.[11] GSA agreed with our findings and has revamped this database and

[9]GAO, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed*, GAO-01-452 (Washington, D.C.; Mar. 20, 2001).

[10]GAO, *Federal Real Property: Actions Needed to Address Long-standing and Complex Problems*, GAO-04-119T (Washington, D.C.: Oct. 1, 2003).

[11]GAO, *Federal Real Property: Better Governmentwide Data Needed for Strategic Decisonmaking*, GAO-02-342 (Washington, D.C.: Apr. 16, 2002).

produced a new report on the federal inventory; we have not evaluated GSA's revamped database and related report. In addition to the problems with the worldwide inventory, in February 2005, we reported that as in the 7 previous fiscal years, certain material weaknesses[12] in internal control and in selected accounting and financial reporting practices resulted in conditions that continued to prevent us from being able to provide an opinion as to whether the consolidated financial statements of the U.S. government were fairly stated in conformity with U.S. generally accepted accounting principles.[13] We have reported that because the government lacked complete and reliable information to support asset holdings—including real property—it could not satisfactorily determine that all assets were included in the financial statements, verify that certain reported assets actually existed, or substantiate the amounts at which they were valued.

In addition to problems with unreliable real property data, the government continues to rely on costly leasing for much of its space needs. As a general rule, building ownership options through construction or purchase are the least expensive ways to meet agencies' long-term and recurring requirements for space. Lease-purchase—under which payments are spread over time and ownership of the asset is eventually transferred to the government—are generally less costly than using ordinary operating leases to meet long-term space needs.[14] However, over the last decade, we have reported that GSA—as the central leasing agent for most agencies—relies heavily on operating leases to meet new long-term needs because it lacks funds to pursue ownership. Operating leases have become an attractive option in part because they generally look cheaper in any given year, even though they are generally more costly over time. Budget scorekeeping rules allow these costly operating leases to look cheaper in the short term and have encouraged an overreliance on them for satisfying long-term space needs. Finding a solution for this problem has been difficult; however, change is needed because the current practice of

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

[13]GAO, *Fiscal Year 2004 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenge*, GAO-05-284T (Washington, D.C.: Feb 9, 2005).

[14]In an operating lease, the government makes periodic lease payments over the specified length of the lease in exchange for the use of the property.

relying on costly leasing to meet long-term space needs results in excessive costs to taxpayers and does not reflect a sensible or economically rational approach to capital asset management.

Federal agencies also face challenges in protecting their facilities due to the threat of terrorism. Terrorism is a major threat to federally owned and leased real property, the civil servants and military personnel who work in them, and the public who visits them. This was evidenced by the 1995 Oklahoma City bombing; the 1998 embassy bombings in Africa; the September 11, 2001, attacks on the World Trade Center and Pentagon; and the anthrax attacks in the fall of 2001. Since the 2001 attacks, the focus on security in federal buildings has been heightened considerably. Real property-holding agencies are employing such measures as searching vehicles that enter federal facilities, restricting parking, and installing concrete bollards. As the government's security efforts intensify, the government will be faced with important questions regarding the level of security needed to adequately protect federal facilities and how the security community should proceed.

Various Efforts Initiated, but Real Property Problems Persist Due to Factors that Require Attention

In February 2004, the President added the Federal Asset Management Initiative to the President's Management Agenda and signed Executive Order 13327 to address challenges in this area. The order requires senior real property officers at specified executive branch departments and agencies[15] to, among other things, develop and implement an agency asset management plan; identify and categorize all real property owned, leased, or otherwise managed by the agency; prioritize actions needed to improve the operational and financial management of the agency's real property inventory; and make life-cycle cost estimations associated with the prioritized actions. In addition, the senior real property officers are responsible, on an ongoing basis, for monitoring the real property assets of the agency. The order also established a new Federal Real Property Council (the Council) at OMB.

In April 2005, OMB officials updated us on the status of the implementation of the executive order. According to these officials, all of the senior real property officers are in place, and the Council has been working to identify common data elements and performance measures to

[15]See 31 U.S.C. § 901(b) (1) and (b) (2) for a list of the executive branch departments and agencies required to establish a senior real property officer.

be captured by agencies and ultimately reported to a governmentwide database. In addition, OMB officials reported that agencies are working on their asset management plans. Plans for the DOD, VA, Energy, and GSA have been completed and approved by OMB. The Council has also developed guiding principles for real property asset management. These guiding principles state that real property asset management must, among other things, support agency missions and strategic goals, use public and commercial benchmarks and best practices, employ life-cycle cost-benefit analysis, promote full and appropriate utilization, and dispose of unneeded assets.

In addition to these reform efforts, Public Law 108-447 gave GSA the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 and to use such proceeds for GSA's real property capital needs. Also, Public Law 108-422 established a capital asset fund and gave VA the authority to retain the proceeds from the disposal of its real property for the use of certain capital asset needs such as demolition, environmental clean-up, repairs, and maintenance to the extent specified in appropriations acts. And, agencies such as DOD and VA have made progress in addressing long-standing federal real property problems and governmentwide efforts in the facility protection area are progressing. For example:

- VA has established a process called Capital Asset Realignment for Enhanced Services (CARES) to address its aging and obsolete portfolio of health care facilities. In March 2005, we reported that through CARES, VA identified 136 locations for evaluation of alternative ways to align inpatient services—99 facilities had potential duplication of services with another nearby facility or low acute patient workload.[16] VA made decisions to realign inpatient health care services at 30 of these locations. For example, it will close all inpatient services at 5 facilities. VA's decisions on inpatient alignment and plans for further study of its capital asset needs are tangible steps in improving management of its capital assets and enhancing health care. Accomplishing its goals, however, will depend on VA's success in completing its evaluations and implementing its CARES decisions to ensure that resources now spent on unneeded capital assets are redirected to health care.

[16]GAO, *VA Health Care: Important Steps Taken to Enhance Veterans' Care By Aligning Inpatient Services with Projected Needs*, GAO-05-160 (Washington, D.C.: Mar. 2, 2005).

- In DOD's support infrastructure management area, which we identified as high-risk in 1997, DOD has made progress and expects to continue making improvements. In May 2005, we testified that DOD implemented the recommendations from the previous BRAC rounds within the 6-year period mandated by law.[17] As a result, DOD estimated that it reduced its domestic infrastructure by about 20 percent, as measured by the cost to replace the property; about 90 percent of unneeded BRAC property is now available for reuse. Substantial net savings of approximately $29 billion have been realized over time. DOD's expectations for the 2005 BRAC round include further eliminating unneeded infrastructure and achieving savings. It also expects to use BRAC to further transformation and related efforts such as restationing of troops from overseas as well as efforts to further joint basing among the military services. The results of the 2005 BRAC round will be known later this year, once the legislatively mandated Defense Base Closure and Realignment Commission completes its work and its recommendations are considered by the President and the Congress.

- In light of the need to invest in facility protection since September 11, 2001, funding available for repair and restoration and preparing excess property for disposal may be further constrained. The Interagency Security Committee (ISC), which is chaired by the Department of Homeland Security (DHS), is tasked with coordinating federal agencies' facility protection efforts, developing standards, and overseeing implementation. In November 2004, we reported that ISC had made progress in coordinating the government's facility protection efforts by, for example, developing security standards for leased space and design criteria for security in new construction projects. Despite this progress, we found that its actions to ensure compliance with security standards and oversee implementation have been limited. Nonetheless, the ISC serves as a forum for addressing security issues, which can have an impact on agencies' efforts to improve real property management.

The inclusion of real property asset management on the President's Management Agenda, the executive order, and agencies' actions are clearly positive steps in an area that had been neglected for many years. However, despite the increased focus on real property issues in recent years, the underlying conditions—such as excess and deteriorating properties and costly leasing—continue to exist and more needs to be

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

done to address various obstacles that led to our high risk designation. For example, the problems have been exacerbated by competing stakeholder interests in real property decisions, various legal and budget related disincentives to businesslike outcomes, and the need for better capital planning among real property-holding agencies.

More specifically:

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

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

- Need for Improved Capital Planning - Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in increased long-term costs. GAO, Congress, and

OMB have identified the need to improve federal decisionmaking regarding capital investment. Our Executive Guide,[18] OMB's *Capital Programming Guide*, and its revisions to *Circular A-11* have attempted to provide guidance to agencies for making capital investment decisions. However, agencies are not required to use the guidance. Furthermore, agencies have not always developed overall goals and strategies for implementing capital investment decisions, nor has the federal government generally planned or budgeted for capital assets over the long term.

As you know, GSA is required by law to charge agencies for renting space in federal office buildings, courthouses, and other assets GSA owns. The rental receipts are deposited into the Federal Buildings Fund (FBF), a revolving fund used to fund GSA real property services, including space acquisition and asset management for federal facilities that are under GSA's control. Over the years, there have been various efforts to restrict or exempt agencies from paying rent to GSA for some or all of their space. This, however, can have a negative impact on the government's ability to "re-invest" in its portfolio. Currently, the federal judiciary is seeking such an exemption. This is a very important issue, since it would serve to provide a precedent with significant governmentwide implications.

More specifically, GSA has historically been unable to generate sufficient revenue through FBF and has thus struggled to meet the requirements for repairs and alterations identified in its inventory of owned buildings. We reported in 2003 that the estimated backlog of repairs had reached $5.7 billion, and consequences included poor health and safety conditions, higher operating costs, restricted capacity for modern information technology, and continued structural deterioration. Restrictions imposed on the rent GSA could charge federal agencies have compounded the agency's inability to address its backlog in the past. Consequently, we recommended in 1989 that Congress remove all rent restrictions and not mandate any further restrictions, and most rent restrictions have been lifted. The GSA Administrator has the authority to grant rent exemptions, and all of the current exemptions are limited to single buildings or were granted for a limited duration. Together, these current exemptions represent about $170 million, a third of the $483 million permanent exemption the judiciary is requesting from GSA. The judiciary has

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

requested the exemption, equal to about half of its annual rent payment, because of budget problems that it believes its growing rent payments have caused. GSA data show that one reason the judiciary's rent is increasing is that the space it occupies is also increasing. We are currently studying the potential impact of such an exemption on FBF, however our past work shows that rent exemptions were a principal reason why FBF has accumulated insufficient money for capital investment.

A Transformation Strategy Is Needed

The magnitude of real property-related problems and the complexity of the underlying factors that cause them to persist put the federal government at significant risk in this area. Real property problems related to unneeded property and the need for realignment, deteriorating conditions, unreliable data, costly space, and security concerns have multibillion-dollar cost implications and can seriously jeopardize mission accomplishment. Because of the breadth and complexity of the issues involved, the long-standing nature of the problems, and the intense debate about potential solutions that will likely ensue, current structures and processes may not be adequate to address the problems. In addition, a governmentwide perspective regarding the extent of excess or underutilized space, deferred maintenance, and the costs of real property would improve transparency. That is, all stakeholders would know the condition of the problem and overall, the government could better manage its real property. Given this, we concluded in our high-risk report and in our update in January 2005, and still believe that a comprehensive and integrated transformation strategy for federal real property is needed. Such a strategy could build upon the executive order by providing decisionmakers with a road map of actions for addressing the underlying obstacles, assessing progress governmentwide, and for enhancing accountability for related actions. Based on input from agencies, the private sector, and other interested groups, the strategy could comprehensively address these long-standing problems with specific proposals on how best to

- realign the federal infrastructure and dispose of unneeded property, taking into account mission requirements, changes in technology, security needs, costs, and how the government conducts business in the 21st century;
- address the significant repair and restoration needs of the federal portfolio;

- ensure that reliable governmentwide and agency-specific real property data—both financial and program related—are available for informed decisionmaking;
- resolve the problem of heavy reliance on costly leasing; and
- consider the impact that the threat of terrorism will have on real property needs and challenges, including how to balance public access with safety.

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

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

The transformation strategy should also reflect the lessons learned and leading practices of organizations in the public and private sectors that have attempted to reform their real property practices. Over the past decade, leading organizations in both the public and private sectors have been recognizing the impact that real property decisions have on their

overall success. For example, we at GAO are currently leasing space to the U.S. Army Corps of Engineers to better utilize our space, generate revenue, and reduce the Corps' need to lease space from the private sector. The revenue we receive provides us with an incentive to efficiently manage our space. Better managing real property assets in the current environment calls for a significant departure from the traditional way of doing business. Solutions should not only correct the long-standing problems we have identified but also be responsive to and supportive of agencies' changing missions, security concerns, and technological needs in the 21st century. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, recruit and retain employees, and achieve mission effectiveness.

In addition to developing a transformation strategy, it is critical that all the key stakeholders in government—Congress, OMB, and real property-holding agencies—continue to work diligently on the efforts planned and already under way that are intended to promote better real property capital decisionmaking, such as enacting reform legislation, assessing infrastructure and human capital needs, and examining viable funding options. Congress and the administration could continue to work together to develop and enact additional reform legislation to give real property-holding agencies the tools they need to achieve better outcomes, foster a more businesslike real property environment, and provide for greater accountability for real property stewardship. These tools could include, where appropriate, the ability to retain a portion of the proceeds from disposal and the use of public-private partnerships in cases where they represent the best economic value to the government. Congress and the administration could also elevate the importance of real property in policy debates and recognize the impact that real property decisions have on agencies' missions.

Regarding this Committee's draft legislation known as the "Federal Real Property Disposal Pilot Program and Management Improvement Act of 2005," we believe that the objectives of the legislation and several of its provisions have strong conceptual merit. For example, it would establish a pilot program for the expedited disposal of excess, surplus, or underutilized real property assets identified and would enact many of the requirements of Executive Order 13227 into law. In particular, pursuing this pilot program, as outlined in Title I, would allow for assessing lessons learned and help determine the merits of the program and whether it should continue. Furthermore, making the requirements of the executive

order law, as outlined in Title II, would serve to elevate their importance and show that Congress and the administration are unified in pursuing real property reform. We would respectfully suggest that the Committee give consideration to including a requirement that a transformation strategy for federal real property be developed, as we have recommended.

Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive. Without effective incentives and tools; top management accountability, leadership, and commitment; adequate funding; full transparency with regard to the government's real property activities; and an effective system to measure results, long-standing real property problems will continue and likely worsen. However, the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented, reforms are made, and property-holding agencies effectively implement current and planned initiatives. Since our high-risk report was issued, OMB has informed us that it is taking steps to address the federal government's problems in the real property area. Specifically, it has established a new Federal Real Property Council to address these long-standing issues. To assist OMB with its efforts, we have agreed to meet regularly to discuss progress and have provided OMB with specific suggestions on the types of actions and results that could be helpful in justifying the removal of real property from the high-risk list.

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

Contacts and Acknowledgements

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

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Chairman TOM DAVIS. Thank you very much.

Mr. Johnson, let me start. The reason we are on a 5-year pilot is because Congressional Budget Office scoring, to me, appears very arcane, but doesn't score the savings. Do you know does OMB agree with the Congressional Budget Office on the scoring or does OMB think that we can save money by disposal of the property?

Mr. JOHNSON. I can't comment on the specifics of their scoring methodology, but we find within OMB, too—not just CBO scoring, but within OMB—we find ourselves debating how to score different mechanisms, and one of them is some of these real property mechanisms; and it needs to be thought through. I think the best reference that I heard to scoring issues is scoring ought to be done so as to best serve the American people. And we need to make sure that we are doing that and have good, lively debates about how to score these things, but make sure that the winner, no matter how it is scored, is always the taxpayer, the citizen.

Chairman TOM DAVIS. That is why we prompted it with a 5-year pilot, so we can get some real-time experience, instead of looking at some arcane scoring rules. So in that case you support this concept. Not the specifics, necessarily, but the concept?

Mr. JOHNSON. Yes, we very much support the concept. And we also support the concept of a 5-year time period. The Council has informally adopted the goal of taking a 4-year or 5-year time period to do all the things that the bill calls for, codifies what the Executive order did last year, but to identify the worst performing 5 percent. We just grabbed a number, 5 percent, which might equate to $15 billion worth of real property.

And let us figure out and demonstrate what can be done in the super responsible fashion to deal with the worst of our property issues, and demonstrate what the potential is and then look at how to extend that beyond that worst 5 percent. And the thought is that a 5-year or 4-year time period is a reasonable period of time to do that with.

Chairman TOM DAVIS. The draft legislation will permit the Federal Real Property Council to retain a percentage of the proceeds of sale for the disposition of property to be available and used for further investments to upgrade and improve other properties so that they can be available for disposition as well. It would also provide proceeds to be retained by affected agencies that could be used to implement their asset management plans.

What disincentives do agencies currently face in disposing of excess property? And do you think that the proceeds from sales will provide a sufficient incentive for agencies to dispose of more properties and better manage their properties?

Mr. JOHNSON. My personal opinion is I don't think the primary reason why more has not been done on this is, one, there are statutes that make it difficult to deal with it effectively, but, two, agencies have never been held accountable. I don't think you need to hang a big carrot in front of agencies; you just need to tell them this is what you are expected to do and hold them accountable for doing that.

That is the first thing that has to be done, and I think we are a year into making that happen. And the agencies do not resist this, they welcome it. And as I mentioned in my opening remarks,

they are as enthusiastic about this management opportunity as anything else we are working on, because they realize the huge potential and the opportunity to take proceeds from the sale of unused property and use it to improve and make more productive the properties that they do need.

So the general concept here we fully endorse. I don't think incentive is the key. I would recommend that we make as big a percentage, if not all of the proceeds, of this disposition of properties available for use on other real property needs. We have huge deferred maintenance challenges that we, for perhaps very good fiscal reasons, don't fund, and have not funded for many, many years, and this is a potential source of funds for that purpose.

Chairman TOM DAVIS. Thank you.

General Walker, the GAO recommends that a comprehensive, integrated transformation strategy for real property is still needed to buildupon the Executive order. What does this mean? How would it help the Government to improve its real property management and how will this complement the agency asset management plans?

Mr. WALKER. Mr. Chairman, I think, as in many areas, you need to have a comprehensive, strategic and integrated plan that lays out what you are trying to accomplish, by when, who is responsible for what, that crosses the various silos and organizational structures in the Federal Government in order to maximize the chance of success. I would agree with Clay Johnson that one of the real keys here is transparency. We need a lot more transparency with regard to what the Government owns, what the State of that is, and a variety of other factors. We need more accountability to make sure that people are making progress. I think this plan could help assure that accountability.

But I do believe that your incentives would be a plus, that it would encourage people to be able to take actions, because right now the current budgetary rules are such that it costs money to save money. And right now they might not have the money to be able to engage the disposition, and they don't keep any of the proceeds when they do. Therefore, that is a very real impediment.

Chairman TOM DAVIS. OK, thank you very much.

Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. Johnson, reading your testimony, I want to commend you on what looks like a very business-like way of trying to get a hold of this really huge problem. You talk about the information that the agencies will need or the Council will need on operating cost, condition, utilization, mission dependency. That is very important. This is not just a piece of land. This is not just an asset.

And, very importantly, you say in your testimony which agency property should be maintained. You know, some of these properties have been ignored. That doesn't mean they should simply be disposed of. And calling attention to the fact that you have ignored a valuable asset in your inventory surely should be a part of this process, which require cost-effective repairs. That is all very business-like. That is how business would go at whether or not to—they wouldn't just say choose some properties and get rid of them.

I am concerned here about—I think it was Mr. Walker that talked about DOD. You are aware, Mr. Walker—I know Mr. John-

son is—that DOD is one of the few agencies that can sell properties. Now, maybe this agency with a huge budget needs some very small financial incentives. When you are talking about incentives to the DOD budget, it is almost laughable.

But it seems to me the whole notion of accountability is what is at work on DOD. They are sitting on top of properties. They say, you know, we are in the base business, we are in the war-making business, we are not interested in these properties, or something like that, when they have the capacity to simply do what most agencies don't do, and that is dispose of the property right now themselves.

How do you account for that, that they are not moving on the property?

And maybe Mr. Johnson knows something about why some agencies that already have—I notice you say the Veterans Administration has this flexibility and is using it. You don't mention DOD, for example.

I would like to hear both of you on that, because that is probably where most of the property is.

Mr. JOHNSON. Well, my brief comment is that is what BRAC is about, I think, and it is a very contentious issue when you decide you don't need a whole lot of property with a whole lot of employees on it and earning a whole lot of paychecks in somebody's district or somebody's State. So there is a process for dealing with that, and I think there is a 5-year cycle and so forth.

Ms. NORTON. Are these old BRAC properties? You mean old BRAC properties that they no longer use and are just sitting there?

Mr. JOHNSON. No, I believe properties they don't need. They might be functional, but they really don't need them. They could consolidate. They could work more efficiently if they were able to close some bases that they don't need.

Ms. NORTON. No, sir. I am talking about the ones that are already excess properties that could sell—Mr. Walker alluded to them—and that they are not in fact using their existing flexibility to deal with.

Mr. JOHNSON. Well, on that, I can't turn the clock back, but I think DOD is enthusiastic about identifying what they need, what they don't need, what they have, what they wish they didn't have, and then coming up with a plan for getting rid of that, and then being held accountable for the implementation and execution of that plan. So I don't think the key is that there haven't been incentives. I think the key is that it has not had the focus that it is going to have, that it has now. And with focus and attention, and, as David said, transparency and accountability, there will be attention.

Ms. NORTON. Yes, Mr. Walker.

Mr. WALKER. Two things. No. 1, you need a plan, you need transparency, and you need accountability. They haven't had that, but there is the expectation that they will, in part because of the Executive order, in part because of, hopefully, the codification of that Executive order, which is one component of this bill.

Some of the properties, however, that are excess do have to do with proposed actions under BRAC. But you are correct to say not all of them do. So, therefore, we need that comprehensive and inte-

grated plan that provides the right type of transparency and accountability mechanisms.

Ms. NORTON. I am not talking about proposed. If you looked at the inventory of the Federal Government, you would find right now, for decades, that inventory is largely in the hands of DOD, which always could dispose of it. I accept your answer that focus in on what the Executive order does, which is say, hey, fellows, we are paying attention to this, so you better, is certainly the first step.

I would like to ask both of you, before the chairman—I am the only Democrat here—tells me I have to move on to the next person, one more question, and that is whether you believe it is wise to eliminate the public benefit. I am particularly asking about States and localities who would have an opportunity to buy at least at a reduced price if the land is to be used for a public benefit like a hospital or a school. Is that a good thing to still have in the Federal process of disposing of land or not?

Mr. WALKER. I would respectfully suggest that is an area that needs to be explored further. My understanding of the draft bill says that you have to sell the property for at least 90 percent of the fair market value. The hope would be that you would sell it for fair market value. There could be some circumstances in which, where there is a public benefit, you might sell it for somewhat less than fair market value.

Ms. NORTON. No, sir, I am asking a wholly different question. I am saying right now land is offered first to a Federal agency—and I think Mr. Johnson's testimony indeed has the Federal agencies looking to see whether or not they should make use of it—and, second, if the land is of no use, a State or locality gets an opportunity that the commercial sector would not get. I am asking very specifically if that should be maintained.

Mr. JOHNSON. Well, my feeling is—and I think the chairman talked about this—that there are many issues here to be addressed, so many needs. None of these are totally contradictory to one another, and they can all be addressed. We are all here to serve the American people, and we can figure out a way to do that in a balanced, responsible fashion.

Ms. NORTON. Thank you very much.

Chairman TOM DAVIS. If I could just add to that. That is right, but we don't want to put one group necessarily ahead of the other, particularly for this pilot program, when we want to save money. And many times if you just dispose of this and give it to a locality or something, it is going to show a net loss on the books and we defeat the whole purpose. So I think we have to handle this a little differently but at the same time be sensitive to the issues that were addressed by Mr. Waxman and Ms. Norton. We are going to try to find that balance. But that is the reason for the waiver.

Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I would like to concentrate my questions and comments on this bill and what we hope to accomplish with non-DOD Federal land versus the history of BRAC. And particularly to Ms. Norton, the homeless waiver I think is essential, and let me just explain. Bases

closed in California have been an amazing magnet for people who take free land.

At March Air Force Base, with no public transportation, homeless home units were made available to people who needed them. No problem. Except today they are directly across from some of the most classified continued uses of March Air Force Base. So you have a top-secret war on terrorism facility, and when you walk out the door you are looking at a fence—and you can't do much more than put in a chain-link fence—and you have a completely unregulated area of the base.

It is that sort of reuse that, because of the mandate, occurred. Certainly not the intent of the McKinney act, but it happens, and it happens because the act doesn't say give me 5 percent off the top of revenues and I will go put homeless facilities in its best location; it says I can get land and buildings for free and go in and house people.

And I don't blame anyone for taking that, but that is certainly not the best way to achieve it. And hopefully, as we go through this process, if we have a consideration for the homeless, that we look and say it is a dollar equivalent to the homeless that does the most value, not necessarily making a facility or a part of a facility available just because it would be at no cost.

The other area that I am very concerned about is in the BRAC process communities have had special rights and certainly rights to redevelop. One of the things that they have done is they have effectively zoned out the highest and best use. El Toro in Orange County, 50 years an Air Base, intended very much to be a world-class airport that would have given Orange County the equivalent—well, actually, a better facility than LAX. Local objections controlled that out. And I have no problem with that, but it also turned it into a park for which we received effectively zero.

Last, but not least, regardless of what has been said, Tustin Air Base was essentially sold for a profit by the city. In no uncertain terms they flipped it and turned it into housing units. The Navy did get some net proceeds from it, but the community maneuvered it so that it was a huge direct gain to them.

And I would like you to comment on how we could prevent these kinds of loopholes, if you will. I can't call them abuses because the law clearly allowed for it. But none of them were the intended consequences. Thank you.

Mr. WALKER. First, I think one of the things you were talking about, Congressman, is to the extent that you want to have a public benefit provision and to the extent that you want to consider the issues that Ms. Norton talked about, should it be on a discount basis versus a free basis—and that is the point that I was trying to make.

You may decide as a matter of public policy that there ought to be rights of first refusal and that there are certain types of activities that have a public good, State and local, and whatever else. But the way to deal with that is a discount from what otherwise would be paid versus a giving it away for free.

Second, I think that it is also important to make sure that we keep in mind that most of these properties have little value on the books of the financial statements of the U.S. Government. Most of

them have been fully depreciated. So whatever we get is going to be additional proceeds for the taxpayers, for the benefit of the taxpayers. It is going to be a gain, and we are also going to avoid additional expenses.

Last thing is I think in addition to having these types of safeguards, we ought to look to find out whether or not other Federal agencies need these properties. That should be a standard part of the process that goes through as well.

Thank you.

Mr. JOHNSON. The concept of what is the standard part of the process I think is the key. I think it is all about defining what success is, what would be a successful disposition or dealing with a piece of property. And we could define 17 questions you ask yourself, or 27, or 6, or whatever it is; does it do this, does it do that, does it prevent this, make this possible, whatever. We could define that based on all of the concerns you have.

And as we are contemplating the best way to deal with this property that we don't need, figure out the best way to do that. And it won't be a clear black and white issue—you should definitely do this—but it will be a balanced approach, because there are so many different ways of looking at it, and we just need to make sure that we are all in agreement that these are the component parts of what the definition of success is.

Again, what the process should—the process is not this is a free piece of property, should it be given to the homeless or not, this is a piece of property we don't need, now what are all the issues we need to address and what is the best balanced way to address that.

So I don't know the answer to your question, but I am very confident that we are all smart enough to figure out the best way to do that.

Mr. ISSA. And if I can just clarify my question, chairman, for the record. When I was talking about homeless, what I was suggesting is that if we are going to have a homeless element, rather than saying here is your free land, here is the percentage value that is allocated. You can take that from the cash proceeds of the sale, you can take it in land exchange 100 percent, or you can take it at a discount.

That flexibility, at least in the San Diego and southern California area, almost certainly would have caused them to take those dollars and move them to either one base out of many or even to other land that would have been available that would have given them an idyllic location, rather than having to take the location where the free land was.

Mr. JOHNSON. And, again, it might have been taking the McKinney act and say what is the desired purpose of that? It might be used for the homeless. Is that really the question that is being asked or might the proceeds be used for the homeless—which is your point—and figure out what we are really defining as success here and figuring out how all these things match up.

Mr. ISSA. And I look forward to working with our Members to try to achieve that in this act.

Mr. WALKER. And I think land use has to be a consideration. It is not just the economic value and who is benefiting, but what is the use of the land going to be with regard to contiguous properties

where the Federal Government still has ownership interest and is using that property.

Mr. ISSA. Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

Gentleman from Utah, Mr. Cannon.

Mr. CANNON. Thank you, Mr. Chairman. Thank you for the opportunity to offer my views on the need for Federal real property management reform.

Let me begin by thanking Mr. Johnson and Mr. Walker for appearing before the committee today. Your testimony and expertise on Federal property ownership is valuable and will help shape future management of Federal real property.

Although the explicit topic today is Federal real property, especially referring to buildings, I would like to take a moment to point out what I see as a direct corollary between the problems associated with Federal buildings and federally owned lands. Let me begin by giving you a quick review of the current status of Federal land ownership.

One way to do that is by quoting one of my heroes, Ronald Reagan. We have up here on the screen on either side, if you would like to take a look at that, a map that he was referring to in a 1998 press conference when he said the following: "I have a map. I wish everyone could see it. It is a map of the United States. And land owned by the Government is in red and the rest of the map is white. West of the Mississippi River, your first glance at the map, you think the whole thing is red, the Government owns so much property. I don't know any place other than the Soviet Union where the Government owns more land than ours does."

Seventeen years later the Soviet Union is gone and President Reagan has passed on, but the land holdings of the United States have increased year by year. In fact, today the Federal Government oversees an estimated 671 million acres, an area more than six times the size of California. Over 90 percent of this land is located in the western States. Additional land is added to the Federal estate every year. Over the past 10 years Federal land acquisition funding has averaged $347 million annually, and over the last 40 years an area larger than the State of Florida has been added to the Federal estate, that is, since John Kennedy was President.

Spending millions of dollars for additional land acquisitions makes even less sense when one considers the condition of existing Federal lands. Not only are Federal facilities deteriorating, a recent Congressional Research Service report estimated the maintenance backlog for our Federal lands exceeds $15 billion. Roads, campgrounds, and other basic facilities in our existing national parks are crumbling and not being repaired.

And it is not just underutilized buildings and facilities. GSA has also identified more than 5 million acres of Federal land as vacant, with no Federal purpose. Seven years ago the BLM surveyed lands identified as surplus or suitable for disposal and estimated the value of excess lands at nearly $2 billion.

In the same way that it makes little sense for the Department of Defense to spend $3 to $4 billion each year to maintain unneeded facilities, it makes even less sense to spend hundreds of

millions of dollars each year acquiring new Federal lands when we are not properly caring for the lands that we own.

Making matters even worse, the Federal Government doesn't even have a good accounting of its Federal lands. For example, in my home State of Utah, the most recent Government statistics put the amount of Federal land at 57 percent. In 2003, those same statistics stated that 66 percent of the land in Utah was owned by the Federal Government. Where did these lands go? Some might assume that the 14 percent of the Federal Government actually reverted to the State. In fact, the actual amount of land didn't change; the only thing that changed was the Government's accounting of Federal lands. Indeed, the records and accounting for Federal ownership are so poor that nobody really knows how much Federal land is in Utah.

Now, nationally, 48 other States also saw significant changes in the Federal ownership between 2003 and 2004, despite the fact that relatively little land was bought, sold, or exchanged in the course of the year. That is why I introduced H.R. 1370, the Federal Land Asset and Inventory Reform Act of 2005. Although numerous provisions of law require the Federal Government to inventory its land, existing inventories are old, outdated, and inaccurate.

The legislation would require the Secretary of the Interior to develop a multi-purpose of Federal real property to assist with Federal land management, resource conservation, and, perhaps most importantly, the identification of surplus and unneeded Federal lands. I believe that if we dedicated the same amount of time, attention, and money to land disposal that we currently do to acquire new Federal lands, both the people and the lands would be in much better shape.

For those reasons, I strongly support the efforts of this committee to confront the barriers to making underutilized public buildings or properties usable and available for sale. At the same time, I would also like to encourage us to consider ways to facilitate the disposal of unneeded or surplus Federal lands. I also believe it is crucial that the Federal Government develop a current, accurate inventory of its land holdings. Taxpayers have already invested hundreds of millions of dollars over decades to achieve such an inventory, and my bill, H.R. 1370, is the appropriate congressional directive to get what Congress has long sought.

Let me just add that this comes at a huge cost to people in the west. The area that you see in red is largely the area that is growing in population in the country. And that area, if you overlaid the amount of per capita taxation, would show that we tax at a higher rate in the west.

And if you looked at our student expenditures in schools, you would find that we spend significantly fewer dollars all over the area in the west, and that is largely due to the fact that we don't own the land. We can't tax the land. Our local jurisdictions have no income except for PILT, that is, payment in lieu of taxes.

[The prepared statement of Hon. Chris Cannon follows:]

The Honorable Chris Cannon
Opening Statement
Committee on Government Reform
June 22, 2005

Thank you, Chairman Davis, for this opportunity to offer my views on the "Need for Federal Real Property Management Reform".

Let me begin by thanking Mr. Johnson and Mr. Walker for appearing before the Committee today. Your testimony and expertise on federal property ownership is valuable and will help shape future management of federal real property.

Although the explicit topic today is federal real property in buildings, I would like to take a moment to point out what I see as a direct corollary between the problems associated with federal buildings and federally owned lands. Let me begin by giving you a quick review of the current status of federal land ownership. One way we can do that is by quoting one of my heroes, Ronald Reagan.

In a 1988 Press Conference, President Reagan said the following:

> *"I have a map. I wish everyone could see it. It's a map of the United States. And land owned by the government is in red, and the rest of map is white. West of the Mississippi River, your first glance at the map, you think the whole thing is red, the government owns so much property...I don't know any place other than the Soviet Union where the government owns more land than ours does."*

17 years later the Soviet Union is gone and President Reagan has passed on. But the land holdings of the United States have increased year by year. In fact, today the federal government oversees an estimated 671 million acres, an area more than six times the size of California. As you can see, over 90 percent of this land is located in western states.

As surprising as it may sound, the federal estate continues to grow each year. Indeed, over the last decade federal land acquisition funding has averaged $347 million annually. Over the last forty years, the federal government has spent nearly $13 billion on land acquisition. Looking at it another way: an area larger than the size of Florida has been added to the federal estate since John F. Kennedy was president.

Spending millions of dollars for additional land acquisition makes little sense when one considers the condition of existing federal lands. While the General Services Administration has identified nearly $5.7 billion dollars that will be needed for repairs of old and deteriorating federal facilities, a recent Congressional Research Service report estimated the maintenance backlog for our federal lands exceeds $15 billion dollars. Roads, campgrounds, and other basic facilities in our existing National Parks are crumbling and not being repaired.

The GSA has also identified more than 5 million acres of federal land as vacant, with no federal purpose. Seven years ago the BLM surveyed lands identified as surplus or suitable for disposal and estimated the value of those lands at nearly $2 billion dollars.

In the same way that it makes little sense for the Department of Defense to spend $3 to $4 billion dollars each year to maintain unneeded facilities, it makes even less sense to spend hundreds of millions of dollars each year acquiring new federal lands when we're not properly caring for the lands we already own.

Making matters even worse, the federal government doesn't even have good accounting of its federal lands. For example, in my home state of Utah, the most recent government statistics put the amount of federal land at 57 percent. In 2003 those same statistics stated that 66 percent of the land in Utah was federally owned. Where did the other lands go? Some might assume that some 14 percent of the federal land was actually reverted to the state. Oh that that were the case!

In fact, the actual amount of land didn't change. The only thing that changed was the government's accounting of federal lands. Indeed, the records and accounting for federal ownership are so poor that nobody really knows how much federal land is in Utah. As you can see in this chart, 48 other states also saw significant changes in their federal ownership between 2003 and 2004 despite the fact that relatively little land was bought, sold, or exchanged in the course of the year.

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I believe that if we dedicate the same amount of time, attention, and money to land and property disposal that we currently do to acquire new federal lands, both the people and the lands would be in much better shape.

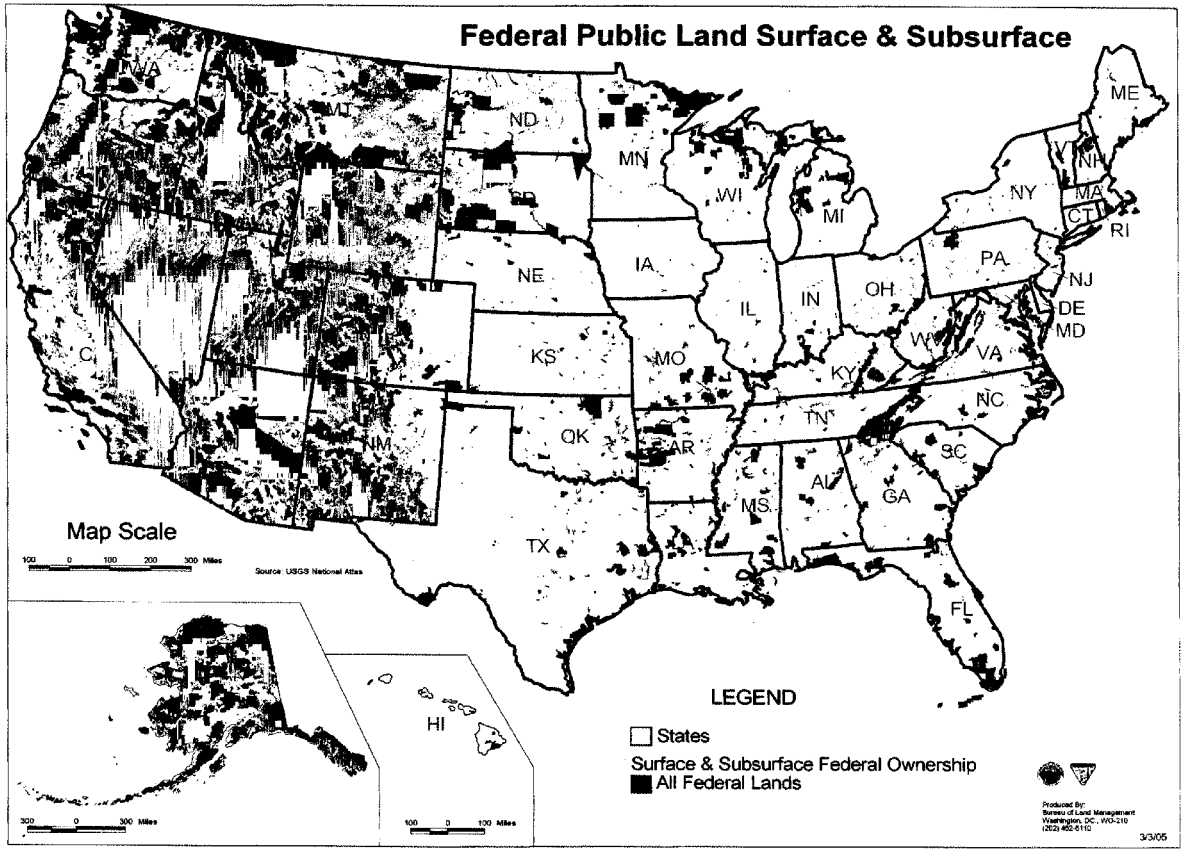
For these reasons, I strongly support the efforts of this Committee to confront the barriers to making underutilized public buildings or properties usable and available for sale. At the same time, I would also like to encourage us to consider ways to facilitate the disposal of unneeded or surplus federal lands.

I also believe it is crucial that the Federal government develop a current, accurate inventory of its land holdings. The taxpayers have already invested hundreds of millions of dollars, over decades, to achieve such an inventory. My bill, H.R. 1370 is the appropriate Congressional directive to get what Congress has long sought.

Thank you again for being here. I look forward to your testimony.

"I have a map. I wish everyone could see it. It's a map of the United States. And land owned by the government is in red, and the rest of map is white. West of the Mississippi River, your first glance at the map, you think the whole thing is red, the government owns so much property…I don't know any place other than the Soviet Union where the government owns more land than ours does."

President Ronald Reagan
January 11, 1988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Mr. CANNON. Mr. Johnson, you have a couple of things that relate intimately to this, and I would like to just ask two questions and I look forward to your answers. The first is will you take an aggressive role in helping us identify and do something to be more rational about how we identify, utilize, and sell off surplus Federal lands? And, second, given the burden of the Federal land ownership on western taxpayers, will you assure us that you will help us get full funding of the payment in lieu of taxe programs next year?

Mr. JOHNSON. The answer to the first question is yes. And I don't know enough about the second question to answer one way or the other.

Mr. CANNON. Thank you. I hope that you will look at it. This is a relatively minor program. Full funding of PILT would be less than what we are spending on the annual acquisition of land, which is about $347 million over the last 10 years. Full funding of PILT would be in the $320 million range. I think the House passed an amended bill that included $242 million for PILT.

We have a higher birth rate, we have many more people moving in the west. The burden on our education system is really crucial in the west, and especially in these areas where people are moving to more and more rural areas. These are wonderful areas to live, some of the most beautiful areas in the world.

And, yet, when they move there, they have to make the conscious decision that they are going to pay a significantly higher tax rate and that their children are going to get a significantly lower cost of education. And I just don't think it is appropriate. When the Federal Government owns it—you know, I love my northeastern friends, Republicans and Democrats, who claim that these are America's lands. Fine. Pay for them.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman TOM DAVIS. Thank you much.

Ms. Brown-Waite.

Ms. BROWN-WAITE. Thank you very much, Mr. Chairman.

I have a question for both of our panelists, and that is has the reluctance of the Federal Government to get rid of some of the land been based on the fact that when it is sold, that the funding goes into general revenue rather than back to the agency holding the land? That would be my first question.

Mr. WALKER. I think there is absolutely no question that has served as a disincentive. But I come back to what I said before. You have to have transparency, you have to have an inventory, you have to have transparency over that and accountability mechanisms. But the fact that the agency doesn't get to keep any of the proceeds, in most circumstances, and sometimes it actually costs money to dispose of the land means it is a double negative potentially.

Mr. JOHNSON. My answer to that is similar, but I don't believe agencies need incentives to do the right thing. I think they have never been held accountable for doing this, which is the primary issue; and I think we are all taking care of that.

But I think, as I mentioned in my remarks, there are two parts of this issue. One of them is we have property we don't need and

the other part of it is we have property that we need, but it needs to be better maintained. And we have trouble finding funding for this, and this is a source of funding over here for this. So to deal with the entire problem, I think funds from the disposition of properties we don't need can be, should be made available for our other real property needs, so that means agencies will be retaining use of proceeds.

Ms. BROWN-WAITE. Let me ask you a question also about the management of properties, particularly in my area we have a lot of forest land. Did you, in your testimony, either of you, indicate how much is actually spent on management? And if we do change the model that we use, where funding actually goes back to the agency, what percentage generally would you say should be used for management? Because I found that usually there isn't enough money spent on management.

Mr. JOHNSON. One of the things that the Real Property Officers and Real Property Officers Council will do is develop standards—what are good standards to use for management, environmental, utilities, utilization; all those things. We don't have good benchmarks to use, and we are in the process of developing that, and we will establish some good operating principles and guidelines to use by the entire Government.

Ms. BROWN-WAITE. Am I to understand that the Federal Government did not have best management practices?

Mr. JOHNSON. That is true.

Ms. BROWN-WAITE. Thank you for your candor.

Mr. JOHNSON. I hope that is true.

Mr. WALKER. It is definitely true. It has not utilized best practices. It is still working on trying to develop an inventory of all the property that we own, the condition of that property, what is excess. You can't manage something until you know what it is. And then how you go about managing it, once you know what it is, obviously is an important part. So a number of positive steps have been taken in that regard within the last couple of years, but we have a long way to go.

Ms. BROWN-WAITE. You know, as much as people would like to beat up on the Federal Government for not knowing precisely what it owns in various parts of our great country, I can just tell you that from the State of Florida perspective, the State of Florida had the same problem; it didn't know what it owned, really didn't know what the boundaries were. So I know misery sometimes loves company. So the Federal Government is not alone, and I think many States find themselves in exactly the same situation.

Thank you. I yield back my time.

Chairman TOM DAVIS. Thank you very much.

Mr. Shays.

Mr. SHAYS. Thank you both for coming before this committee. I have a tremendous amount of respect for obviously both of your agencies and your leadership, both of your leaderships. I would like to know where the two of you may disagree.

Mr. JOHNSON. Where we disagree?

Mr. SHAYS. Yes. Are there any subtle points of disagreement or emphasis?

Mr. WALKER. Candidly, Mr. Shays, we haven't had an opportunity to compare notes on that. I can tell you, if it would help you, very briefly to tell you what I see as the four positive things and the four areas I would ask you to think about in this legislation, if that would help, and then he might be able to comment.

Mr. SHAYS. That would help.

Mr. WALKER. The positive things in the draft legislation is you are codifying the Executive order—that is a positive—you are defining underutilized property, which needs to be defined; you are establishing incentives for agencies to dispose of property; and you are also using a centralized management process, which I think is a positive. The areas that I would ask you to think about would be, No. 1——

Mr. SHAYS. Think about, in other words, additions to?

Mr. WALKER. Additions, that is correct, or potential enhancements or modifications.

First, whether or not you should require a comprehensive transformation plan along the lines of what we recommended for the Federal Government; second, whether or not there should be more transparency—we believe there should be—over the use of the proceeds, the 20 percent that the agency gets to keep.

Mr. SHAYS. Stated in the legislation?

Mr. WALKER. Yes, to provide that in the legislation, more transparency. And then the other thing I think that ought to be thought about—and it may not have to go into the legislation, but I would ask Clay to think about—is whether or not, as part of the ongoing management process, there ought to be more transparency over things like what is the fair market value of space that agencies own; what is the average number of square feet per person of property that agencies own or lease.

We need more transparency on that because I think, frankly, there may be a lot more underutilized properties than otherwise we may know about if we had some decent benchmarking data and provided more transparency on that in order to try to make sure that we are identifying all the areas of opportunity.

Mr. SHAYS. I would like to ask you, Mr. Johnson, to respond to what you have heard. Anything that you disagreed with or would want to qualify?

Mr. JOHNSON. You are asking me?

Mr. SHAYS. Yes. Of what Mr. Walker said, anything that you would disagree with or want to emphasize in a different way?

Mr. JOHNSON. No disagreement. But in terms of emphasize, David talks about a transformation plan. We have to have data, information with which to base our plan on, and we don't have that inventory information now.

Mr. SHAYS. OK, let me just ask it and you can define it any way you want. But in several GAO reports they recommend the development of an integrated transformation strategy for real property to buildupon the requirements of the Executive order. So explain to us why OMB hasn't initiated this process. Do you have concerns about the process? Are you implementing other processes that will attain the same result? Would you consider establishing a committee of the Federal Real Property Council to explore this issue?

Mr. JOHNSON. Well, every agency is charged to come up with a real property plan for its agency, and that plan will be based on the facts about what it owns, what it wants to own, what it doesn't want to own, and what it needs to do with the property it would like to keep but make better.

Mr. SHAYS. But the key is that there be an integrated plan for all of the agencies.

Mr. JOHNSON. True. But you can't come up with an integrated plan until you have information upon which to base it.

Mr. SHAYS. So while that information is being prepared, are you working on an integrated plan?

Mr. JOHNSON. No, sir.

Mr. SHAYS. OK. And that is what I am having trouble understanding. You don't need all that data in order to begin to know certain principles that you want to establish.

Mr. JOHNSON. The principles are being developed. We are working on principles, and the format and the template and the issues that any agency will be developed, yes, sir. And we would be glad to come up and brief you specifically on any component part of the Federal Real Property Council's work or the work of the individual Federal Real Property Officers.

Mr. SHAYS. So when you get the data you will be ready to just move forward with an integrated plan? When your agencies report to you and you have an inventory and so on, can we expect that we will see an integrated plan?

Mr. JOHNSON. I am not sure what you mean by an integrated plan. Agencies are individually challenged to come up with a plan for their agencies.

Mr. SHAYS. Right. But isn't there a general principle, some guidelines to all agencies that they need? I mean, we don't want one department——

Mr. JOHNSON. The guiding principles, sure, we have that. We can share that with you.

Mr. SHAYS. OK. Maybe you can respond to my question, Mr. Walker, because GAO has made recommendations. Do you feel that you are getting a response or do you feel that you are yelling into the wind?

Mr. WALKER. I think what I hear Clay saying is that they need to develop the comprehensive inventory before they believe they are going to be in a position to develop a comprehensive and integrated plan. I think there is a need for a comprehensive integrated plan, because there are certain issues and activities that you need to deal with across the various silos of Government that will not be dealt with if you just look at the individual agencies.

Mr. SHAYS. Does that have to wait until the data is built?

Mr. WALKER. I think there are things that you can do before you have the data, and you should do before you have the data.

Mr. SHAYS. Give me an example.

Mr. WALKER. For example, one of the things that was addressed earlier by Ms. Norton was the fact that we need to determine whether or not there is a need in agency B, where we have excess property, and agency A. There needs to be a coordination mechanism between the two of those to make sure we are considering that.

Second, to the extent that the Congress decides that there ought to be a right of first refusal or a preference for State and local governments for certain public interests, then we need to make sure that there is a mechanism to ensure that happens on a Government-wide and integrated basis.

So those would be a couple of examples.

Mr. SHAYS. Thank you.

Mr. JOHNSON. Can I make one comment?

Mr. SHAYS. Sure.

Mr. JOHNSON. David Walker loves me.

Mr. SHAYS. Well, we all love you. [Laughter.]

Mr. WALKER. I object.

Mr. JOHNSON. GAO loves the management agenda. We are the best thing that ever happened to them, and vice versa.

Mr. SHAYS. So you love him too.

Mr. JOHNSON. Of course.

Mr. SHAYS. OK. Thank you. [Laughter.]

Mr. WALKER. Can I revise and extend my remarks for the record?

Chairman TOM DAVIS. It is when the cameras aren't here you hear a lot of funny things in this room. [Laughter.]

Mr. SHAYS. Thank you, Mr. Chairman.

Chairman TOM DAVIS. Mr. Ruppersberger.

Mr. RUPPERSBERGER. Well, first, I think it is really important that we focus on this issue, and I applaud the President for passing the Executive order creating a Senior Real Property Officer to deal with these issues.

But I think the fact that we have created that situation, now we have to hold them accountable for doing the job. And that is what I really think we need to focus on and we need a system. And as far as a system is concerned, we have talked about it and I know the chairman has a bill in to attempt how we identify these properties and sell them.

I want to talk a little bit about the issue of the maintenance of properties that we might sell or might not sell. You know, if we spend $100,000 on maintenance, it might save $1 million down the road. And the Senior Real Property Officer in each major department, where is their focus as it relates to maintenance of these buildings?

Mr. JOHNSON. Maintenance is one of the metrics that will be required to be presented and made transparent for each of these properties. So we can start looking at maintenance cost per whatever the reference point is—number of employees, square foot, whatever—and come up with best practices and guidelines and so forth so we can have more responsibly and more professionally manage our maintenance expenses.

Mr. RUPPERSBERGER. But my point is, are we really doing this? Where is the accountability factor? If we have a problem and we don't fix it, and then it becomes a million dollar problem because it is an older building or whatever, does that go on the list? Do we have a system that will provide——

Mr. JOHNSON. We are not doing that now, no, sir. But we are getting to the point where we can hold Real Property Officers accountable for managing their maintenance cost to within desired limits.

Mr. RUPPERSBERGER. My suggestion, if you are not doing it now, that is a very important aspect of the system in saving money. And I think a lot of times we talk about getting rid of buildings, but some people that we keep we need to make sure that we focus on that. And I would hope that we could get those people—what are they called, the Senior Real Property Officers—to talk about the maintenance issue.

Mr. JOHNSON. We agree that owning what we want to own and not owning what we don't want is part of it. But operating and maintaining and running the lights and HVACs on the properties we own is important, and we need to do a better job of managing those properties.

Mr. RUPPERSBERGER. Well, it is not about the lights, it is about fixing things that need to be fixed.

Mr. JOHNSON. I realize that, sir. What I am saying is we are in the process of setting ourselves up to hold Real Property Officers accountable for doing exactly what you are calling for.

Mr. WALKER. In addition to what you are talking about, I think there could be some circumstances in which we have deferred maintenance for properties that we do want to sell, and we ought to be making a decision about whether or not we want to do some of that deferred maintenance before we sell it in order to get more value. As we all know, many times before we sell our home we might fix up some things in order to enhance the fair market value before we actually dispose of it.

Mr. RUPPERSBERGER. How about the issue of September 11th and the fact that we have new requirements for security in a lot of our buildings? Is that part of the process that is used to determine whether or not we sell a building, whether or not we retrofit a building? And how much more money is that costing us generally?

Mr. JOHNSON. It has not been taken up formally, but the Federal Real Property Council intends to.

Mr. RUPPERSBERGER. So a lot of the things we are talking about haven't been implemented, but we are working on the implementation, is that what you are saying?

Mr. JOHNSON. Yes, sir.

Mr. WALKER. I think that is a critically important element. I mean, I would argue that given the additional security threats that we face, all the more reason why we need to rationalize and downsize our infrastructure so that we can focus our dollars on protecting and securing those facilities that we are going to use and that we truly need.

Mr. RUPPERSBERGER. Now, when we put these buildings up for sale, is part of the evaluation process to find out where the building is located? I mean, a lot of times the property is worth a lot more than the building itself. Is that a part of the process? If we are going to get money back and we are going to sell these buildings, is the fact that a building is in an area where the property is worth a lot, is that an indicator of whether we sell it or not?

Mr. JOHNSON. Well, the fair market value, use of the——

Mr. RUPPERSBERGER. You have a building in downtown Washington, DC, that is worth a lot more, the property—maybe the building isn't—versus somewhere in Virginia.

Mr. JOHNSON. Yes, sir.

Mr. RUPPERSBERGER. Now, is that part of the process, to evaluate where these buildings are, that if we are going to sell them, that we are going to get more money back?

Mr. JOHNSON. Yes, sir.

Mr. RUPPERSBERGER. OK. And who administers that or who evaluates that?

Mr. JOHNSON. Well, the standard by which that would be looked at have been or will be established. Federal Real Property Officers will be held accountable for looking at that. That will be addressed. They will be held accountable. All assets are not the same, not created equal; they have different values, different potential uses, and all those aspects will be addressed.

Mr. RUPPERSBERGER. Have we evaluated what our total inventory is and the worth of our total inventory of all Federal office buildings throughout the country, just in the United States?

Mr. JOHNSON. No.

Mr. RUPPERSBERGER. I see my time is up, so I can't ask anymore questions.

Chairman TOM DAVIS. But the answer is no.

Mr. Walker, you have got a couple more minutes. If we can just get a couple more questions in from Members I think who are chomping at the bits.

You wanted to ask one more question?

Mr. RUPPERSBERGER. No, I just wanted to followup on the fact of what we are dealing with from a fiscal point of view and if we really have a total inventory. It is very difficult, it is voluminous, but if we are going to get a hand on it, we are going to have to be able to find out what we have and evaluate all of that as it relates to security, as it relates to the value of where the property is.

Also, I haven't heard the other questioning here today, but I really feel we have to focus on the maintenance side of this, too, and how much money do we invest in maintenance. Because if you don't invest in maintenance, that can create tremendous problems down the road.

Chairman TOM DAVIS. Thank you.

Mr. JOHNSON. We are addressing the issues that you have raised. I think we are doing more now, the Government is doing more now to professionally manage its real property than ever before. You will be proud, we will all be proud of where we will be a year from now, and prouder still a year from then, and prouder still a year from then.

Mr. RUPPERSBERGER. Good. Thank you.

Chairman TOM DAVIS. Thank you. You can tell Mr. Ruppersberger was a county executive. Of course, at the county level—and I was the head of the county government in Fairfax—it is a lot easier to take your inventory.

Mr. JOHNSON. Oh, no question.

Chairman TOM DAVIS [continuing]. Than it is nationally.

They are still trying to get an inventory for the District of Columbia, of all of their land and get it to the city where we can work together to put maybe some property back on the tax rolls and make some other needs as well.

I just had one other question. This is, Clay, to you. Your testimony referred to 23 commonly defined data elements for those inventories, such as operating cost, condition, utilization. Can you provide the committee—we don't need this today, but in your briefing or whatever—a complete list or matrix of these data elements and how they will be used to assess performance?

Mr. JOHNSON. Yes, sir.

Chairman TOM DAVIS. And what are the most important elements? I think that would be very, very helpful to us.

And we appreciate very much what GSA is doing in terms of getting this inventory of Federal properties in the District. It seems to me that one of the long-term needs of the District is to establish that independent tax base, and some of these properties can be utilized for the city through redevelopment; some may need other city needs. But we appreciate the administration's willingness to come forward on that. I know Ms. Norton is looking forward to having that conversation as we move forward.

Ms. Norton, you had a couple of other questions?

Ms. NORTON. Just a couple questions.

I would like to ask a question really stimulated by Representative Issa's question, because I think I have a point of agreement here. We haven't had the experience as much on the east coast as you may have had out west. But remember the use of free land by the homeless came at the beginning of the whole homeless crisis.

We have had now a lot of experience under that, and I am not sure there has ever been a re-evaluation. I understand that in the beginning years that whoever represented the homeless, that there were some feelers put out about proceeds rather than land.

Let me ask both of you this. It turns out that, so far as we know, the homeless are interested in these bases or this Federal land most often for the buildings. Now, many of these are unimproved, run-down, you're moving the homeless to places that no homeless would even want to move in.

I am wondering whether or not, as you look at these properties—and some of these would be old BRAC properties, so I am kind of joining these BRAC properties—particularly with the new BRAC process underway, whether or not your inventory would tell us how many of these properties that have been offered to the homeless. Because the law requires it simply have not proved useful to them, which, it seems to me, would then re-stimulate the notion that when such properties are disposed of in some way, some amount of the proceeds might be used for the homeless, as opposed to getting stuck on the homeless and it never then moves forward.

Is there any way to break out not only which are the DOD properties, but which have had to be, as it were, rejected by homeless organizations and therefore suggests, perhaps, that we have to look again to see if there is another way to handle the homeless problem—we don't want to cut them out by any means—without holding up a whole property. There we are talking about free land.

Representative Issa, I was talking about land that would never have been for free. The local jurisdiction would have to buy the property, albeit at a discount, and the only reason they got a discount is because they are going to use it for a public purpose that is usually regarded as tax-exempt, like hospitals or schools.

But I am asking whether or not we can move this homeless issue along in the process, I guess, Mr. Johnson, of dealing with you inventory, so that we really know whether or not turning over or giving first dibs to the homeless has proved what they really want.

Mr. JOHNSON. Let me tell you what I think the answer is to that. My understanding is that if we know whether a homeless organization has accepted or rejected properties because we have tried to dispose of it, the vast, vast, vast majority of the properties we are inventorying we have never tried to dispose of, so we don't know whether there is a potential need to address homeless opportunity.

Ms. NORTON. But you will know whether the homeless wanted it.

Mr. JOHNSON. Only once we begin the process of disposing of it, because that is one of the things we have to do early on. But in terms of here is a property we are thinking about getting rid of, we won't know whether it has potential use by the homeless or not. But I think, again, once we define——

Ms. NORTON. See, I thought a BRAC property had to be offered to local jurisdictions or to the homeless.

Mr. JOHNSON. Once you have decided that you are in fact going to begin the process of disposing of it.

Ms. NORTON. So you mean they are just sitting on this property and nobody is making the decision as to whether or not anybody in the Federal Government might have use of it?

Mr. JOHNSON. Right.

Ms. NORTON. Because it is supposed to go does anybody in the Federal Government want this? If you don't want it——

Mr. JOHNSON. Once we decide that the owning agency doesn't need it——

Ms. NORTON. I see.

Mr. JOHNSON [continuing]. Then the process begins: is there anybody else that needs it; is there a local interest; is there a homeless interest; or whatever the sequence.

Ms. NORTON. So there is a question of just getting off the dime and making a decision as to whether you want it.

Mr. JOHNSON. Right. You have to first decide you don't need it and begin that process.

Ms. NORTON. Representative Shays asked if there was any disagreement between you. I don't see any disagreement except that your use, Mr. Walker, of the word incentives seems to be not as broad as the use of Mr. Johnson, because in his testimony he does talk about other Federal uses as being important for agencies to take into account. I am on another committee where agencies come all the time for space.

One of the things, it seems to me, you ought to say to an agency before you go to the Federal Government and say pay for some new space for our folks, is to say look at your inventory and see if any of that space could be used instead of your asking the Federal Government for new space for your employees. Would you agree with that? That the use of space for your own employees might be an important fresh look at sites and buildings that Federal agencies may own?

Chairman TOM DAVIS. That will have to be the last question, but go ahead and answer.

Mr. WALKER. I think that has to be part of the process. We need to have a process that certain things are automatically done as an integral part of the process. And I think what I heard Clay say was that he believes that transparency and accountability are the most important elements. He acknowledges that there is a need not just for agency plans, but a Government-wide plan at an appropriate point in time. And I thought I heard him say that, while he is not opposed to incentives, he believes that the other elements are more important.

I believe that you need all three. I believe that transparency is critical, you have to have a plan, you have to have accountability mechanisms. I think the incentives can help, because right now you have a circumstance in which it costs money to save money, and if you have to come up with the money out of your budget and you don't get to keep any of the proceeds, it is a net loss from the standpoint of the agency. It is a net gain from the standpoint of the taxpayers and the Federal Government. But we have some very perverse incentives in our budget system, and I think we have to recognize that reality.

Chairman TOM DAVIS. Thank you very much.

Any other questions? Mr. Issa.

Mr. ISSA. Mr. Johnson, particularly for you, because we are talking not just about this legislation, but about the administration's attempt to change how we deal with Federal property, I gather you are very familiar with the PPV program that DOD is using?

Mr. JOHNSON. No, sir.

Mr. ISSA. Let me be brief, then. The Public-Private Ventures that are going on primarily for housing and——

Mr. JOHNSON. Oh, yes. I know that, yes.

Mr. ISSA [continuing]. Seeks to deal with a fundamental problem in our system—and I won't say it is the most eloquent dealing with it, but it works—which is for decades the military has always been told here is your money and here is your mission, and then when the mission runs out of money, they are told to go find it, and they find it by not working on sewer systems, painting, and all the other upkeep for our soldiers and sailors and Marines.

So as a result, those homeless shelters that are handed out, even if they are military barracks or family housing units, to be honest, we are not doing the homeless a favor, because these are usually just terribly dilapidated; they haven't even gotten rid of the asbestos problems, etc.

What PPV tries to do is to say, look, there is a cost, let us bid it out. So now, instead of a triple net lease and we hope you do the maintenance, it is really a gross lease. Is there a movement in the administration—and it doesn't have to include, of course, a private contractor, but is there a movement as part of this reform to get to where we go to the gross lease concept so that there is a rationalization of cost, but also maintenance in that rationalization, rather than breaking the two out separately, knowing that today's manager's job is to get today's mission done, he is likely to rob Peter, just as his predecessor did and his successor will, to pay Paul?

Mr. JOHNSON. I don't know the answer to the specific question about gross and net leases, but I do know that providing quality

housing for members of the armed forces is a very high priority for this President. And great strides have been made by DOD.

Mr. ISSA. Actually, Clay, I was saying that is a success story. I am looking at the other part, all the other Federal buildings and so on, because you have the same situation.

Mr. JOHNSON. Oh, I see, beyond the military.

Mr. ISSA. Right. And I am not saying that you do a privatization and lease back the way the PPV worked, necessarily. That may or may not be the model, depending upon other considerations. But in order to keep from having deferred maintenance going forward, so we leave the next administration a system in which the buildings we retain do not become dilapidated buildings of tomorrow, do we have a plan and can this committee help you in making that possible, that change in how you do business?

Mr. JOHNSON. Yes, this committee can help us in all these areas. Our goal is to make sure that maintenance is adequate, that it is within desired operating levels, and quality of end product levels, and we welcome any and all input from the committee.

Mr. ISSA. Thank you, Mr. Chairman. I know my time has expired.

Chairman TOM DAVIS. Thank you very much, and I know, General Walker, that you have to leave.

Mr. Johnson, thank you very much. And I hope we can move this legislation. I look forward to your input as we continue to move through the legislative process.

Hearing is adjourned.

[Whereupon, at 11:33 a.m., the committee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearing record follow:]

Opening Statement of
Representative Elijah E. Cummings, D-Maryland
Hearing on "Wasted Space, Wasted Dollars: The Need for Federal Real Property Management Reform"
Committee on Government Reform
U.S. House of Representatives
109th Congress

June 22, 2005

Mr. Chairman,

Thank you for calling this important hearing on the federal government's real property management.

With a portfolio of approximately 500,000 buildings worth $328 billion, and 500 million acres of land, the federal government represents one of the most prominent property owners in the world. With the scope of the federal government's property holdings in mind, I am deeply concerned about the significant management challenges facing this portfolio.

The Government Accountability Office (GAO) in 2003 added federal real property management to its high-risk area list. The GAO concluded that "long-standing problems in the federal real property area include excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space. These factors have multi-billion dollar cost implications and can seriously jeopardize the ability of federal agencies to accomplish their missions. Federal agencies also face many challenges securing real property due to the threat of terrorism." Unfortunately, federal real property management is still included in the GAO's 2005 high risk list.

Today, we find ourselves continuing to examine the best legislative approach to rectify the substantial challenges that beset the federal government's real property management.

It has been brought to my attention that Chairman Davis intends on introducing a bill to establish a pilot program to expedite the property disposal process and to codify provisions of Executive Order 13327—Federal Real Property Asset Management. Under the legislation, the Federal Real Property Council would be required to select a minimum of 10 properties per year over a 5 year period to participate in the pilot program. Agencies would then be directed to sell these properties for at least 90% of fair market value. It is important to mention, this legislation would exempt properties sold under the pilot program from important provisions of the McKinney-Vento Homeless Assistance Act and the existing public benefit disposal process.

The current public benefit disposal process under the Federal Property and Administrative Services Act stipulates that once the General Services Administration designates a property as surplus, if it cannot find another federal use, it must evaluate the property for possible public benefit usage. Public benefit is a far reaching concept that includes everything from utilizing the property for public health or education to wildlife conservation.

Under the McKinney-Vento Homeless Assistance Act, public agencies and nonprofit organizations that offer homelessness assistance are considered on a preferential basis to obtain surplus federal property at discounts that can translate up to 100% of fair market value. With that said, I am concerned that the pilot program proposed in the Chairman's legislation could adversely impact those who rightly benefit from the existing disposal process.

In no uncertain terms, the federal government's property holdings are an asset that we cannot afford to waste. Let us not forget, as long as the federal real property management system can unfortunately be typified by the phrase "wasted space, wasted

dollars," we undermine one of our nation's greatest assets—the trust of the American people. They have entrusted us in good faith to be responsible stewards with their tax dollars.

Good stewardship demands that we safeguard against waste, fraud, abuse, and mismanagement. Mr. Chairman, the time to ensure the federal government's real property management is effective and efficient is now. In doing so, let us be sure that we do *not* "throw the baby out with the bath water," for our homeless assistance providers and others who depend on the current disposal process are too important to become the unintended losers of reform.

I yield back the balance of my time and look forward to the testimony of today's witnesses.

Submitted for the Hearing Record:
House Committee on Government Reform
June 22, 2005
by
Charles E. Williams, MG (Ret.), Director/COO
Bureau of Overseas Buildings Operation (OBO)
U.S. Department of State

The Department of State's Bureau of Overseas Building Operations (OBO) leads the federal government with sound stewardship of its overseas real property portfolio and is a model for other government agencies. Since 2001, OBO has transformed into a results-based organization with an integrated management approach grounded in ***accountability*** and ***discipline***, using industry ***best practices*** and supported by a ***best-in-class Industry Advisory Panel***.

At the outset, I must assure the committee that real property management requires ***strong, skilled managers*** who are knowledgeable about business and the real estate marketplace. No legislation is a substitute for the thoughtful planning, disciplined execution, or hands-on leadership that steers an organization through performance-based measurements and real world business cases. However, this process has helped us identify ***tools that would make our stewardship more efficient -- and help us perform in a more businesslike manner -- with Congress's help in both resources and legislative authorities.***

Likewise, our careful exercise of some authorities not yet granted other federal agencies may provide a roadmap for how they can maximize their use of such tools for the betterment of taxpayer investment in federal real properties. OBO embarked on this path in 2001, prior to the creation of the Federal Real Property Council, and we remain full partners in the Administration's effort and intend to maintain leadership in this field.

In the State Department's global portfolio, each market is diverse and constantly changing, but we have industry benchmarks to guide us. We have commercial best-practices and partners in the private sector to give us new ideas and feedback on our own innovations. And we have the leadership team and organizational structure to look after the entire life-cycle of our properties, from planning to acquisition, management, and disposition of these real property assets. Some challenges and constraints are unique to overseas, diplomatic properties. Nevertheless, each activity is driven by planning and business case analysis, with measurable outcomes and performance-based metrics.

State Department's Real Property Mission

The Department of State is the Federal government's primary real property manager for assets owned and leased abroad, under the authority of the Chief of Mission. OBO's task is to provide platforms for U.S. diplomatic and consular missions (including other federal agencies' development and assistance agendas), with secure, safe, and functional facilities where US government employees and their families can live and work, while also looking after the taxpayer's significant investment in buildings and land.

OBO has authority to sell property and retain proceeds for reinvestment into its programs: ***aggressively identifying excess or underutilized property;*** selling ***at or above market value*** whenever possible; and ***reinvesting the proceeds*** for a better ***return on investment*** to meet the U.S. Government's evolving global needs for diplomatic platforms. Some data highlight areas of success since OBO's reorganization in 2001:

- Between 2002 and 2004, OBO sold ***99 properties for $211 million***. The total sale proceeds were ***8 percent above the appraised value***.

- All proceeds were reinvested into OBO programs. Net proceeds from sale paid for the ***entire new embassy projects in Berlin ($143 million) and Luanda ($51 million)***, and $50 million towards a portion of the ***Beijing*** New Embassy Compound.

- In 2004, OBO reinvested $15.9 million in sale proceeds by purchasing staff housing with a minimum ***11% rate of return***, reducing future lease payments totaling ***$1,900,000 in annual savings.***

- OBO's average broker commissions associated with property sales is ***lower (at 2.3%)*** than benchmarks for other government agencies and ***private industry figures (approximately 4%)***.

In acquisitions of new embassy sites, aggressive negotiations and business case analyses yielded purchases at significant discounts in many instances. Moving forward, OBO is using integrated Planning/Real Estate teams to determine total cost of ownership and development of new sites, to save construction dollars downstream.

- In 2004, OBO negotiated purchase prices of ***$73 million*** for new embassy sites with a ***market value of $89 million***. This translates to a discount of 18%.

- In 2005, OBO is using internal administrative cost savings to design and launch a **Buildings Management Integrated System**, upgrading technology to collect and integrate data vital to stewardship ***across the life cycle*** of its real property inventory.

This becomes increasingly important as OBO's ambitious New Embassy Construction program changes the mix of new, state-of-the-art buildings versus aging buildings with limited useful life. Operations & Maintenance requirements impact the market value of improved properties at disposal time, as well as the decommissioning costs.

- Diplomatic property exchanges have also been utilized to allow the US Government to acquire needed acreage in advantageous locations, while disposing of excess at no-cost or favorable terms. Bilateral considerations may complicate some details, but in all cases, OBO seeks to make as strong a financial business case as in fee-simple deals.

- OBO has explored alternate uses of excess property, using sound business case analysis for opportunities to allow occupancy of former diplomatic properties still owned by the US Government. Although leasing to non-governmental entities may provide a mutual benefit in rare circumstances, legacy issues that prompted vacating those properties initially must be addressed for any future tenant, if the property stays in USG inventory.

Looking ahead, OBO seeks solutions to the challenge of ***competing worldwide*** to attract talented real estate/property management professionals to government service, in order to manage inherently governmental functions effectively and to give proper oversight to aspects that can be competitively sourced through private sector partners.

OBO demonstrates that well-run government agencies can use asset management strategies, including identifying and selling excess property then reinvesting the proceeds where business case analysis dictates, to maximize government investment returns in real property.

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Cleaning Up
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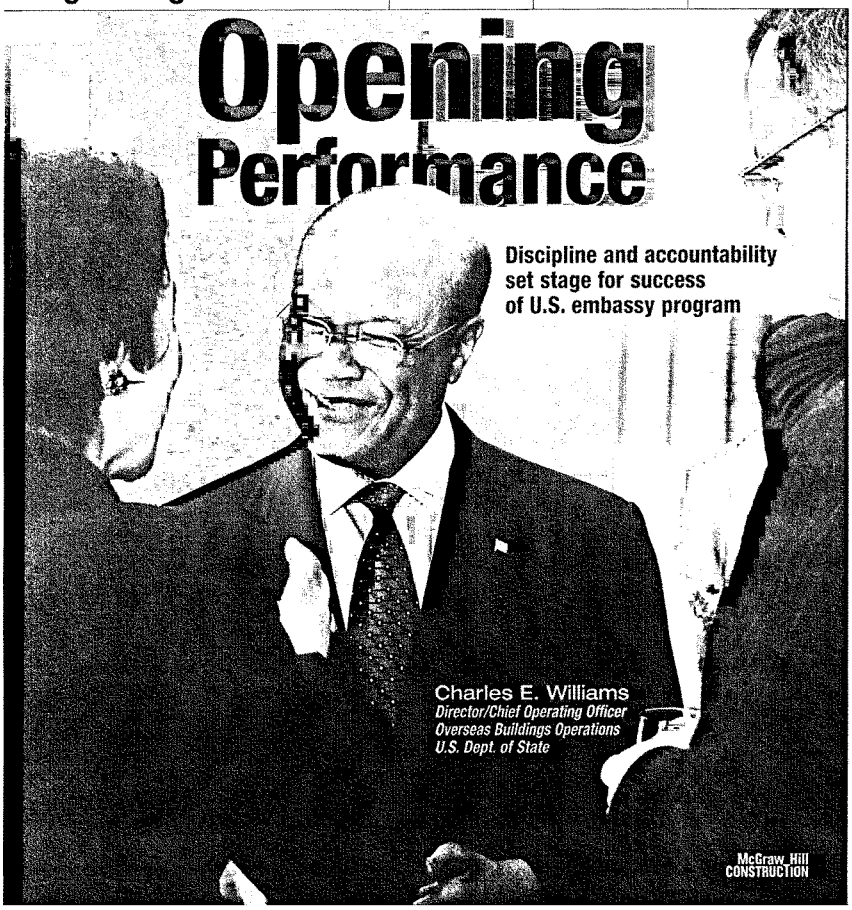
Shortage of radial tires crimps equipment owners

Opening Performance

Discipline and accountability set stage for success of U.S. embassy program



Charles E. Williams
Director/Chief Operating Officer
Overseas Buildings Operations
U.S. Dept. of State

McGraw-Hill CONSTRUCTION

By Janice L. Tuchman and Sherie Winston

State Learns that Embassies Can Be Cheaper by

Management skill of new director is credited with transforming program to upgrade security

How do you open 15 embassies and consulates in four years, start construction on 39 more and have 13 ready to bid? Two words: "Discipline and accountability," says Charles E. Williams, director and COO of the Bureau of Overseas Buildings Operations at the U.S. State Dept.

"Accountability is a word Williams uses every day," says P.K. Baggia, OBO's project director for the new U.S. Embassy complex under construction in Beijing. "He doesn't micromanage, and his door is open so you can discuss problems on the horizon. But he has truly implemented performance measures."

Williams was hand-picked for the job in December 2000 by then Secretary of State designate Colin Powell as the newly elected Bush administration prepared to enter the White House. He recalls that Powell charged him with what Williams calls an "awesome task," to turn around the existing, slow-moving program and rapidly increase security.

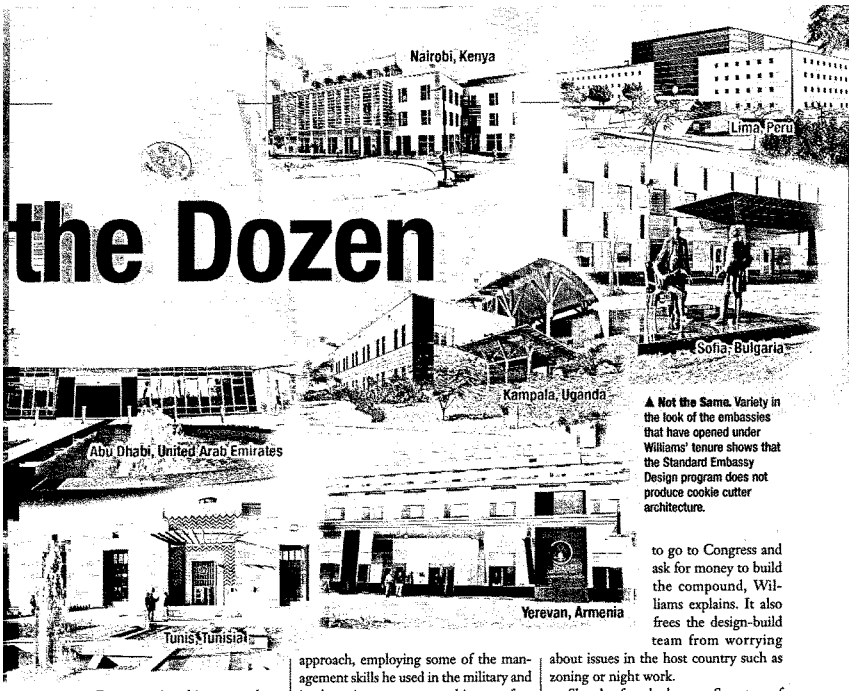
▲ **Marching Orders.** Williams formed a team to work "quicker, better, more responsively."

Upgrading embassy security around the world became a top State Dept. priority after the 1998 bombings of U.S. embassies in Kenya and Tanzania. The department found major deficiencies at 195 of its 264 embassies and consulates, real estate worth $12 billion. Some were functionally obsolete as well. But the standard design-bid-build process used then, along with limited resources, meant only one or two facilities a year could be built. The old program, under the Office of Foreign Buildings Operations, suffered because it did not have a plan. Says one critic: FBO "had a lousy reputation on Capitol Hill and within State."

But Williams, who retired as a major general after 29 years with the Army Corps of Engineers, had a mandate straight from Powell (see box p. 29). Williams shows visitors the reference in the book, *The Leadership Secrets of Colin Powell*: "Do whatever is needed to overhaul the capital planning procedures and operations of your office....Go ahead and push the envelope...ignore traditions that don't work any more—and whatever you do, don't bother asking for permission."

Williams indeed pushed the envelope. After Powell raised the office to the more senior bureau status within the State Dept., Williams asserted his unique management style to turn the program around. His first term was an unqualified

PHOTO BY JANICE L. TUCHMAN FOR ENR; PHOTOS TOP COURTESY OF THE DEPARTMENT OF STATE



▲ **Not the Same.** Variety in the look of the embassies that have opened under Williams' tenure shows that the Standard Embassy Design program does not produce cookie cutter architecture.

success. Four years into his tenure, there were 54 embassy compounds under construction or completed. Not only did he dramatically accelerate the pace of construction, he started saving money by implementing Standard Embassy Designs (SED) and design-build project delivery. These techniques reduced the duration of a project by as much as a third. Officials saved $63 million on fiscal 2002 projects, for example, allowing OBO to plan an additional facility.

SED allows contractors "to take more consistent design criteria to delivery more rapidly," allowing construction to begin sooner, explains Mike Gwyn, a government group vice president with Fluor Corp., now responsible for the operation of J.A. Jones International. Williams works regularly with industry to refine SED, adds Gwyn.

Williams also shifted the program away from a traditional government approach, employing some of the management skills he used in the military and in the private sector to achieve performance-based results. His first task, he says, was to sprinkle private-sector talent within the staff. "We had to do things quicker, better and more responsively," Williams says.

He also instituted a land acquisition strategy where U.S. officials select 10-acre sites for future compounds that meet environmental, security and other criteria. Preselecting the land makes it easier to go to Congress and ask for money to build the compound, Williams explains. It also frees the design-build team from worrying about issues in the host country such as zoning or night work.

More Work in the Pipeline

	Award Date
Baghdad, Iraq	Summer 2005
Beirut, Lebanon	September 2005
Ciudad Juarez, Mexico	July 2005
Johannesburg, South Africa	September 2005
Khartoum, Sudan	September 2005
Kigali, Rwanda	September 2005
Libreville, Gabon	September 2005
Mumbai, India	August 2005
Quito, Ecuador	August 2005
Skopje, Macedonia	September 2005
Suva, Fiji	September 2005

SOURCE: U.S. STATE DEPT., BUREAU OVERSEAS BUILDINGS OPERATIONS

Shortly after she became Secretary of State, Condoleezza Rice asked Williams to stay on, saying, "I don't want you to change anything," Williams claims. He says Rice is promoting a new vision that she calls "transformational diplomacy." OBO's role is to transform old dysfunctional embassies into all-encompassing "diplomatic platforms" that include an array of government agencies, such as an Environmental Protection Agency office or an Agency for International Development unit, within one compound.

Four years ago OBO was managing $700 million worth of work. Today, that portfolio exceeds $4 billion. Williams has visited 122 posts during his tenure, including numerous groundbreakings and opening ceremonies such as the one at the $75-million embassy in Yerevan, Armenia, on May 6 (see cover).

The White House's Office of Management and Budget "rated our new con-

Embassy Interiors Reflect Countries

As the embassy construction team focuses on architectural and engineering components, another team of designers on the same project is deciding how best to showcase the United States through the furnishings, art and ceremonial objects used by U.S. representatives in their official duties.

Embassy interiors often reflect the U.S. ambassador's style and personal taste. New

Ambassador's residence in Buenos Aires.

ambassadors meet with the State Dept.'s extensive interior decorating staff to select fabrics, furniture, carpets and drapery. For new compounds, the designers also work with architects to highlight certain design elements. The host country's climate and culture are taken into consideration when creating the interior.

Ceremonial china, crystal and silver is standard worldwide in every U.S. embassy. The seal on each glass and the design on every plate signifies the type of event and who is in attendance. If the ambassador is presiding, china and crystal with a specific seal is used. If the deputy chief of mission is most senior, a different pattern is used.

The State Dept.'s Art in Embassies program provides paintings, sculpture and other media, loaned by artists or institutions, for display in the official residence, says Robert T. Soppelsa, a program curator. This "diplomatic outreach program" can highlight social issues or personal preferences. One ambassador's love of rodeos was reflected in the art he selected. ■

By Sherie Winston

▲ **Sanity Check.** Advisory panel members such as Tod Rittenhouse (l) and Ida Brooker keep OBO in tune with industry.

struction management as 97% effective for execution. We have 15 to 20 large reliable American contractors working for us now, versus two or three in years past." Williams says. The plan now stretches out over 14 years with a total cost of $17.5 billion. To stretch those resources further, the White House is phasing in a cost-sharing program among the many agencies that will share space in new embassy compounds. When fully matured in four years it will add $1.4 billion each year to the funding stream.

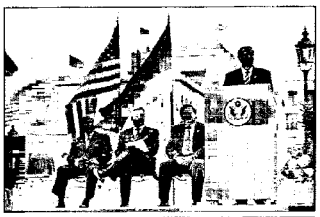
Leadership Secrets

Observers credit Williams' managerial skill as a key to his success. Larry D. Walker, group vice president for global infrastructure of Louis Berger Group, says one can't divorce Williams' style from the magnitude of the program. Williams "had to implement a strong organizational model," Walker contends. "He is a strong disciplinarian and this is what this organization needs."

Louis Berger currently is assisting OBO with conceptual design for the new embassy compound in Baghdad. "It's the upfront work," explains Walker. Designers take the concept to a point where the design-build teams can bid on it—generally 15 to 25% complete.

Along with management strength, Williams needed the support of senior leaders at the State Dept., considered extremely political even by Washington standards, as well as Capitol Hill. "He was brilliant in understanding Congress and OMB," which was key to securing the financial resources to grow the program, says one former associate. "This wasn't just lip service, he was leading it and making it happen," says the associate.

Such leaders generally find opposition within the organization they are trying to change, and Williams was no exception. "Some people don't like change [and Williams] represents change," says a



▲ **Frequent Flyer.** Williams has visited 122 countries, often for ceremonies such as groundbreakings in Berlin (above) and Managua, Nicaragua.

PHOTOS COURTESY OF THE DEPARTMENT OF STATE

source. The primary opposition came from architects who initially opposed the standard design concept. But while SED standardizes space parameters, perimeter facilities, utilities, building mass and structural grid, it still leaves room for architectural creativity.

"There is a lot of variation based on climate, topography, culture and locally available materials, and State encourages that," adds Rod Henderer, senior vice president in the Washington, D.C., office of architect RTKL. The firm was on the design-build team that built the completed embassy in Kampala, Uganda, which was used as a "springboard" for the SED, he says.

Achieving Buy-in

Williams also achieved buy-in from industry by launching an Industry Advisory Panel. The panel has nine members representing a wide variety of industry associations. Beijing Project Director Baggia says the panel gives Williams a "sanity check" on how new ideas will impact construction.

At the panel's April meeting, for example, Williams asked for ideas to keep designers and construction managers on the same page. Ida Brooker, manager of construction contracts for The Boeing Co., Seattle, said, "It doesn't matter if the two...are on the same page, if it's the wrong page." She recommended starting a project with a work group that combines users, designers and contractors.

Panel member Tod Rittenhouse, principal of Weidlinger Associates, New York City, added that designers sometimes feel they are brought in to give the client "something different." He recommended a "project confirmation meeting," which clarifies objectives and says "this is the area where you can play, this is the area where you cannot play."

Williams has strived to bring new players into the embassy construction program which historically handed out work to the same few firms. Now, Industry Day lays out program plans to potential participants. It drew 450 attendees in 2003, almost 700 in 2004 and expects up

Southern Upbringing, Military Training Influence Williams' Management Style

Charles E. Williams says he has never had an easy job. "Every single job I have ever had, has been a tough, tough job," says the former Army Corps of Engineers official, who retired in 1989 as a major general.

Williams joined the Corps after college in 1960, beginning a career that included a stint as a helicopter pilot in Vietnam, flying engineers while under enemy fire to sites to repair roads. As a captain, Williams met another Army captain also destined for a distinguished career: Colin Powell. Both were stationed in Germany in the early 1980s, and they remained in touch. Williams capped his 29-year Corps career as head of the high-profile North Atlantic Division. His duties included program manager for the rebuilding of Fort Drum, N.Y., the largest Army troop construction project since World War II (ENR 6/4/87 p. 13).

When Williams retired from the Corps, he took on the New York City public school building program, serving as president of the city's School Construction Authority. With a $4.3-billion budget, it was the largest such program in the country. His next career move sent him to Virginia, where Williams became chief operating officer of Toll Road Investors Partnership. He was responsible for managing construction of the first private toll road built in the U.S. in more than 150 years, between Washington, D.C., and Dulles airport. The project, was completed six months ahead of schedule. After a brief stint as a consultant, Williams got a call from his old friend Powell and he returned to government work to helm the State Dept.'s embassy construction program in March 2001.

Throughout his career, Williams has had his share of supporters and critics. But he says he is not concerned with popularity. "When I complete an embassy on time and on budget, that is as popular as I want to be," he says.

Williams was born nearly 65 years ago in Sawyerville, Ala., a rural town not far from Tuscaloosa. His formal education earned him a bachelor's degree from Tuskegee Institute and a master's in business administration from Atlanta University. But Williams recalls that his real education, the core values that have been his greatest influence, were learned from his

Teammates. Powell tapped Williams.

paternal grandmother. She was insistent that "you do your very best [and] don't feel sorry for yourself, particularly if you were a different color," he says. His grandmother also taught the young Williams to always be prepared for any opportunity. Her mandate was "that we go to school and we go to church," besides being courteous to others, honest and trying to do one's very best, he adds.

Those lessons have "carried over to my professional life," says Williams. Another great influence is his military training. "The bedrock of what I use today came from the military," he says. He stresses discipline, punctuality, quick decision making and instant feedback to staff. "Those who have worked for me will say, he's fair, he's tough, he's demanding, but if you stay the course, he'll help you get across the finish line," says Williams.

Says one associate: "You do not get close to Williams if you are not loyal. Loyalty and honesty are two things he values most, and they are related." Williams "is always a general, you never disagree with him in public," adds the associate. "You have to understand that....His speech is exact, he is aware of being in command, he dresses impeccably; you will never see a speck on him."

Williams is married and has three adult children. He admits he is not "a jokester," but claims a few "vices." A self-proclaimed "football nut," he says he roots for the Washington Redskins at every home game. Williams also enjoys golf, but admits that his 18-handicap translates to, "I love to play 36 holes," enjoying the conversation over the competition. ■

By Sherie Winston

PHOTO COURTESY OF THE DEPARTMENT OF STATE

Who's Who in State Dept. Design-Build

Only three facilities now under way are design-bid-build

	Contractor	Architect Team	Cost ($ millions)	Start	Completion
Abidjan, Ivory Coast	J.A. Jones International LLC	CMSS/HOK/Bradley/Parker & Associates	59	January 2002	April 2005
Abuja, Nigeria*	B.L. Harbert International LLC	DMJM/Berger	46	September 2002	May 2005
Accra, Ghana	B. L. Harbert International LLC	Skidmore Owings & Merrill	64	September 2004	April 2007
Algiers, Algeria	Caddell Construction Co. Inc.	Integrus	67	September 2004	July 2007
Astana, Kazakhstan	Fluor intercontinental Inc.	Karn, Charuhas, Chapman & Twohey	63	September 2003	March 2006
Bamako, Mali	Caddell Construction Co. Inc.	Integrus	74	September 2003	April 2006
Belmopan, Belize	Fluor Intercont. dba J.A. Jones Intl.	HOK	49	September 2004	August 2006
Berlin, Germany*	Hensel Phelps	Moore-Ruble-Yudell	90	September 2004	November 2007
Beijing, P.R.C.*	Zachry/Caddell	Skidmore Owings & Merrill	274	June 2004	June 2008
Bridgetown, Barbados	Caribbean Consultants Ltd	Sorg & Associates	14	July 2002	November 2005
Cape Town, South Africa	Hensel Phelps	Zimmer Gunsul Frasca Partnership	36	September 2002	July 2005
Conakry, Guinea	Caddell Construction Co. Inc.	Integrus	48	September 2002	January 2006
Dushanbe, Tajikistan	Kullman Industries Inc.	Kullman Industries	62	July 2002	June 2004
Frankfurt, Germany	J.A. Jones International LLC	HOK	65	September 2003	June 2005
Freetown, Sierra Leone	Caddell Construction Co. Inc.	Integrus	48	September 2003	May 2006
Kabul, Afghanistan	Brown & Root Services	Sorg & Associates	146	September 2002	May 2005
Kathmandu, Nepal	Caddell Construction Co. Inc.	Sorg & Associates	67	September 2004	April 2007
Kingston, Jamaica	Fluor Intercontinental Inc.	Karn, Charuhas, Chapman & Twohey	53	September 2003	November 2005
Lome, Togo	B. L. Harbert International LLC/SOM	Skidmore Owings & Merrill	56	September 2004	October 2006
Luanda, Angola	ABB SUSA	Zagaff	35	September 2001	March 2005
Managua, Nicaragua	Zachry Corp.	Page-Southerland-Page	59	September 2004	October 2006
Panama, City Panama	Caddell Construction Co. Inc.	EYP	67	September 2004	February 2007
Phnom Penh, Cambodia	Zachry Corp.	Page-Southerland-Page	51	September 2003	January 2006
Port au Prince, Haiti	Fluor Intercont. dba as J.A.Jones Intl.	Karn, Charuhas, Chapman & Twohey	74	January 2005	July 2007
Rangoon, Burma	B.L. Harbert International LLC	Skidmore Owings & Merrill	63	September 2004	July 2007
Tashkent, Uzbekistan	J.A. Jones International LLC	Karn, Charuhas, Chapman & Twohey	57	Septembe, 2002	January 2006
Tbilisi, Georgia	J. A. Jones International LLC	HOK/Henkins Anderson	58	September 2002	January 2006
Yaounde, Cameroon	Caddell Construction Co. Inc.	Wanchul Lee	54	September 2002	August 2005

SOURCE: U.S. STATE DEPT./BUREAU OF OVERSEAS BUILDINGS OPERATIONS (LIST IS NOT COMPREHENSIVE)

*DESIGN-BID-BUILD

High-Security Beijing Job Moving into All-American Phase

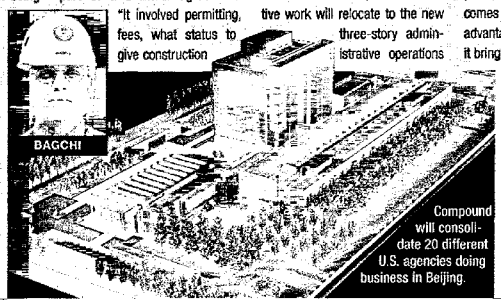
The U.S. embassy under construction in Beijing is special. It doesn't use the standard embassy design prototype common to most of the new buildings in the program, and it's not a design-build job although the vast majority of the work is now being done that way. It's being handled by the "special projects" division of the State Dept.'s Bureau of Overseas Buildings Operations, meaning it has what staffers describe as "unique" security requirements.

The embassy compound is the largest in the world. It's being built in a new embassy area on the upper east side of Beijing with South Korean and Indian embassies right next door and more on the way.

Because a new Chinese embassy also is under construction in Washington, D.C., every aspect of project planning was negotiated as part of a bilateral agreement. "It involved permitting, fees, what status to give construction workers and how to bring materials into the country," says P.K. Bagchi, OBO's project director for the Beijing complex.

The project consolidates 20 different U.S. government agencies doing business in Beijing from 11 different locations. All non-sensitive work will relocate to the new three-story administrative operations center. A two-story consulate will house ambassadorial functions, another building will house Marine security guards, and a three-story garage will offer parking. The eight-story high-rise is where "the most sensitive work will take place," and where most security comes into play, says Bagchi. The advantage of the compound is that it brings all the agencies and functions into a "protected environment," he adds.

The San Francisco office of Skidmore, Owings & Merrill won a design competition for the commission. "The challenge of designing an American embassy is to create a work of architecture that respects the local context



BAGCHI

Compound will consolidate 20 different U.S. agencies doing business in Beijing.

PHOTO LEFT BY JANICE L. TUCHMAN FOR ENR; PHOTO CENTER COURTESY OF GERALD PATTERSON

to 900 at a meeting on Nov. 2.

One new player, HNTB, is drawn to the work largely because of the size of the market, estimated between $1 billion and $1.5 billion annually over the next 10 years. Embassy work is one of six focus sectors of HNTB Federal Services, says Kevin McDonald, president of the unit.

▲ **Customs.** Openings, such as this one in Sofia, Bulgaria, and designs involve local customs and materials.

But traditional players also have stayed on board. Kirby Caddell, CEO of Caddell Construction Co. Inc., Birmingham, Ala., says his firm has been building embassies since the early 1990s. It is now working on the U.S. embassy compound in Beijing as well as seven other projects, including four in West Africa. Working in poor countries, requires enormous planning, Caddell says. "If we want a crane, an air compressor or a dump truck, we have to bring it in. We also have to bring in skilled workers."

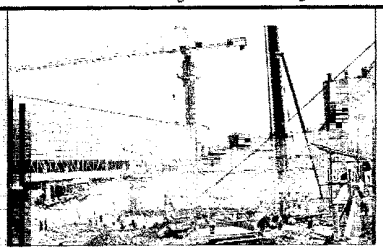
Success is defined by results, tracked by Williams' monthly reviews. They are exhausting, participants claim. This discipline causes "all the people in the management chain to be accountable," says one. "Williams can be an extremely tough and demanding manager," says another former associate. "He also gets more results than anyone else I've ever worked for."

Contractors agree. "He is a tough cookie," claims Paul Miles, president of Morrison International Construction Inc., Kennewick, Wash., which partnered on an office annex for the Albania embassy. "If he says 20 months, he means 20 months. He is relentless. When you make a commitment to OBO, you make a personal commitment to the general. He is watching you like a hawk. And that is not a bad thing." ■

but also reflects American culture and values," says Craig Hartman, SOM design partner. Like an archeologist digging through layers of history and culture, Hartman says he created layers through the design—traditional Chinese gardens, courtyards and pools, followed by "unabashedly modern buildings with no false historicism."

The project's general contractor is Zachry-Caddell, a joint venture of Houston-based Zachry Construction Corp. and Montgomery, Ala.,-based Caddell Construction Co. Inc. In phase one, subcontractor Beijing Construction Engineering Group is framing the administration building and building foundations for the high-rise.

"Then we will sterilize the site, removing all foreign workers and materials" to get ready for the two-year-long phase two, says Bagchi. "We will take extraordinary care to make sure foreign and American materials don't get mixed up."



Chinese subcontractor is building the foundations for what will be an eight-story high-security building, but the structure will be built by American crews using all-American materials.

PHOTO TOP COURTESY OF THE DEPARTMENT OF STATE; PHOTO BY JANICE L. TUCHMAN FOR ENR;

Back in the states, Zachry-Caddell has been screening candidates for its force of 300 construction workers with top secret security clearance. Even so, specialty teams will install certain items.

"You wouldn't believe how many workers you have to screen," says CEO Kirby Caddell. Bagchi describes "construction worker SWAT teams" who have clearance and go from project to project around the world. But with so many embassies, the pool is not big enough. He says Zachry-Caddell has used open houses to "draw new blood." But Bagchi acknowledges that it's an "expensive process" for the government and the contractor. It may take up to 5,000 interviews to clear a pool of 1,200 candidates. After they arrive on site, workers must maintain their clearance and can be sent home if they violate any strict behavior standards.

After the sensitive construction is finished, phase three will see a return of Chinese construction workers for finishing work, landscaping, and construction of the perimeter buildings and garage.

New to the Chinese workers have been safety measures that follow U.S. standards. Each worker was provided with steel-toed boots and eye protection. Working with architectural concrete was also a first for Chinese crews.

The embassy will open before the Olympics in the summer of 2008. Delay is not an option. ■

By Janice Tuchman in Beijing