

**FEDERAL REAL PROPERTY MANAGEMENT: OBSTACLES AND  
INNOVATIVE APPROACHES TO EFFECTIVE PROPERTY  
MANAGEMENT**

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**JOINT HEARING**

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM

AND THE

SUBCOMMITTEE ON SUBCOMMITTEE ON ECONOMIC  
DEVELOPMENT, PUBLIC BUILDINGS, HAZARDOUS  
MATERIALS AND PIPELINE TRANSPORTATION

OF THE

COMMITTEE ON TRANSPORTATION AND  
INFRASTRUCTURE

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

APRIL 29, 1999

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# **FEDERAL REAL PROPERTY MANAGEMENT: OBSTACLES AND INNOVATIVE APPROACHES TO EFFECTIVE PROPERTY MANAGEMENT**

**THURSDAY, APRIL 29, 1999**

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY, COMMITTEE ON GOVERNMENT REFORM, JOINT WITH THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,

*Washington, DC.*

The subcommittees met, pursuant to notice, at 10 a.m., in room 2167, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee on Government Management, Information, and Technology) presiding.

Present for the Subcommittee on Government Management, Information, and Technology: Representatives Horn, Biggert, and Ose.

Present for the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation: Representatives Franks, Norton, and Shows.

Staff present for the Subcommittee on Government Management, Information, and Technology: J. Russell George, staff director and chief counsel; Bonnie Heald, director of communications, professional staff member; Randy Kaplan, professional staff member; Mason Alinger, clerk; Jon Bouker and Faith Weiss, minority counsels; and Earley Green, minority staff assistant.

Staff present for the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation: Rick Barnett, professional staff member; and Susan Brita, minority professional staff member.

Mr. HORN. A quorum being present, the joint hearing of the House Subcommittee on Government Management, Information, and Technology and the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation will come to order.

The Federal Government is one of the world's largest owners of real estate. Its vast portfolio consists of more than 500,000 buildings located on more than 560 million acres of land. These holdings are under the custody and control of more than 30 Federal departments and agencies. They represent a taxpayer investment of more than \$300 billion.

We are here today to examine the ways to improve the management of these assets. Overall, the Federal Government has not been a good steward. There is mounting evidence that the physical condition of Federal buildings has been allowed to deteriorate. Roughly half of these buildings are more than 50 years old.

Last year, a National Research Council Committee independently studied the status of many of these Federal facilities. The committee found that maintenance and repair programs have persistently been underfunded. As a result, many buildings have deteriorated to a point that they now require major repairs to bring them up to an acceptable health and safety standard.

Federal facilities program managers are being encouraged to be more businesslike and innovative. However, the committee found that current management and financial processes create disincentives and, in some cases, barriers to cost effective property management and maintenance.

For example, Ellis Island in New York Harbor—and this committee has walked that ground—is a highly visible example of this neglect. For nearly 100 years, the buildings and structures on Ellis Island housed and received 12 million immigrants, including my own father in 1903. Among its 36 historic buildings, 32 have been so neglected that two-thirds of this national treasure could soon be lost to catastrophic structural failure.

And if we could turn these pages, we will find out what great mystery is next.

At the same time, millions of dollars are being spent on buildings that no longer serve their intended purpose. Downsizing of the Federal work force and changing agency missions have resulted in an excess of Federal buildings and work space that are costly and an inefficient use of the taxpayers' money.

However, in many cases, the laws and regulations governing the disposition of these excess facilities create disincentives that, in fact, make the process expensive, time consuming and difficult.

On March 10 of this year, for example, the General Accounting Office testified before the House Subcommittee on Health that the Department of Veterans Affairs could spend billions of dollars over the next 5 years operating hundreds of unneeded buildings. The General Accounting Office concluded that the Department of Veterans Affairs could greatly enhance veterans' health care simply by reducing the resources it spends on underused buildings.

We cannot continue to ignore the consequences of not maintaining our public buildings. The investment made in these assets warrants sustained, appropriately timed, and targeted maintenance. The Federal Government needs to develop a strategy for facility management, maintenance, and accountability for stewardship that will optimize limited resources while protecting the value and functionality of the Nation's public buildings and facilities.

Today, we are going to look at how the Federal Government manages its vast portfolio of real property. There are currently a variety of laws governing the acquisition, maintenance, and disposal of these assets. We will examine whether these laws help agencies effectively and efficiently manage this property and whether the agencies have some suggestions of what else needs to



be amended in the laws to make their life a little easier and more effective.

We have before us many knowledgeable witnesses to discuss the problems, policies, and procedures surrounding the management disposal of Federal real estate. Among our panelists are representatives from five of the largest land-holding agencies. This important issue affects hundreds of communities across our Nation. We welcome them. And we look forward to their testimony.

I now yield to Chairman Franks, whose committee is meeting with us in this joint session for his opening statement.

[The prepared statement of Hon. Stephen Horn follows:]

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**“Oversight of Federal Real Property Management: Obstacles and Innovative Approaches to Effective Property Management”**

April 29, 1999

OPENING STATEMENT  
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management,  
Information, and Technology

A quorum being present, the joint hearing of the House Subcommittee on Government Management, Information and Technology, and the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation will come to order.

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Overall, the Federal Government has not been a good steward. There is mounting evidence that the physical condition of Federal buildings has been allowed to deteriorate. Roughly half of these buildings are more than 50 years old.

Last year, a National Research Council committee independently studied the status of many of these federal facilities. The committee found that maintenance and repair programs have persistently been under-funded. As a result, many buildings have deteriorated to the point that they now require major repairs to bring them up to acceptable health and safety standards.

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processes create disincentives and, in some cases, barriers to cost-effective property management and maintenance.

Ellis Island in New York harbor is a highly visible example of this neglect. For nearly 100 years, the buildings and structures on Ellis Island housed and received 12 million immigrants. Among its 36 historic buildings, 32 have been so neglected that two-thirds of this national treasure could soon be lost to catastrophic structural failure.

At the same time, millions of dollars are being spent on buildings that no longer serve their intended purpose. Downsizing of the federal workforce and changing agency missions have resulted in an excess of Federal buildings and workspace that are a costly and inefficient use of taxpayers' money.

However, in many cases, the laws and regulations governing the disposition of these excess facilities create disincentives that, in fact, make the process expensive, time-consuming and difficult.

On March 10<sup>th</sup> of this year, for example, the General Accounting Office testified before the House Subcommittee on Health that the Department of Veterans Affairs could spend billions of dollars over the next five years operating hundreds of unneeded buildings. The General Accounting Office concluded that the Department of Veterans Affairs could greatly enhance veterans' health care simply by reducing the resources it spends on underused buildings.

We cannot continue to ignore the consequences of not maintaining our public buildings. The investment made in these assets warrants sustained, appropriately timed and targeted maintenance.

The Federal Government needs to develop a strategy for facility management, maintenance and accountability for stewardship that will optimize limited resources while protecting the value and functionality of the nation's public buildings and facilities.

Today, we will look at how the Federal Government manages its vast portfolio of real property. There are currently a variety of laws governing the acquisition, maintenance and disposal of these assets. We will examine whether these laws help agencies effectively and efficiently manage this property.

We have before us many knowledgeable witnesses to discuss the problems, policies, and procedures surrounding the management and disposal of Federal real estate. Among our panelists are representatives from five of the largest land-holding agencies.

This important issue affects hundreds of communities across our nation. We welcome them, and look forward to their testimony.

Mr. HORN. Mr. Franks.

Mr. FRANKS. Thank you, Chairman Horn. It is a delightful opportunity to share jurisdiction of this hearing with you. I would like to not only recognize but thank you and commend you for your extraordinary leadership you have displayed in so many areas of government management and particularly in the area of Y2K compliance, forcing the government to look at itself in the mirror and make certain that we were leading the way in terms of being prepared for the turn of the new millenium. I want to thank you on behalf of all Americans.

I will keep my opening statement brief. Before I begin, though, I would like to ask unanimous consent that my colleague from the Transportation Committee, Mr. Blumenauer, be able to submit a statement for the record.

Mr. HORN. Without objection, so ordered.

Mr. FRANKS. I would like to welcome the Members and our witnesses to this hearing today. I would also like to thank Chairman Horn for working closely with the subcommittee which I chair in planning and developing this hearing on alternatives for funding Federal capital investment projects with public pride and partnerships.

We welcome new ideas to better manage our Federal assets. Managing our Federal assets is something that needs to be done with the assistance and cooperation of the private sector. I am sure some of our witnesses here today will agree with that.

One facility management component that is often overlooked is the role the facility places in promoting an agency's mission. As the mission changes, so does the agency's facility's needs. These needs have to be accounted for in the context of the Federal budgetary constraints. This is in the form of repair and alteration projects, new Federal construction projects, or in the case of downsizing, disposing of underutilized facilities.

I am well aware in the case of the General Services Administration that short-term expensive operating leases are increasingly used instead of long-term capital improvement projects to meet space needs. Short-term leases reduce the overall government budget at the present time only because these expenditures are counted as annual costs.

The overall impact of this decision places an ever-increasing burden on GSA's buildings' budget. This year, GSA will devote 50 percent of its budget for lease payments. Each year, GSA has less to spend on the important areas of repairs, innovations, and new construction.

The current budget process also emphasizes design and construction cost of a new facility. When these costs account for 5 to 10 percent of the total life cost of the building, operations and maintenance account for 60 to 85 percent of the total cost of ownership. Public-private partnerships could be in the government's best economic interest in meeting the long-term needs of a facility.

With that, Mr. Chairman, I would like to join you in welcoming our witnesses and look forward to the creative ideas that they will share with us today.

Mr. HORN. I thank the gentleman.

[The prepared statement of Hon. Bob Franks follows:]

OPENING STATEMENT FOR THE  
HONORABLE BOB FRANKS

JOINT HEARING ON PUBLIC-PRIVATE PARTNERSHIPS  
APRIL 29, 1999

Thank you Chairman Horn. I will keep my opening statement brief. Before I begin, I would like to ask unanimous consent that my colleague from the Transportation Committee, Mr. Blumenhauer, be able to submit a statement for the record.

I would like to welcome the Members and our witnesses to this hearing today. I would also like to thank Chairman Horn for working closely with the Subcommittee which I chair in planning and developing this hearing on alternatives for funding Federal capital investment projects with public-private partnerships. We welcome new ideas to better manage our Federal assets.

Managing our Federal assets is something that needs to be done with the assistance and cooperation of the private sector. I'm sure some of our witnesses here today will agree with that. One facility management component that is often over-looked is the role a facility plays in promoting an agency's mission. As a mission changes, so does an agency's facility needs. These needs have to be accounted for in the context of Federal budgetary constraints. This is in the form of

repair and alteration projects, new Federal construction projects, or in the case of downsizing, disposing of underutilized facilities.

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Each year GSA has less to spend on the important areas of repairs, renovations and new construction. The current budget process also emphasizes design and construction cost of a new facility, when these costs account for 5-10% of the total life cost of the building. Operations and maintenance account for 60-85% of the total costs of ownership. Public-private partnerships could be in the government's best economic interest in meeting the long-term needs of a facility.

I would like to mention that the Administration did not recommend courthouse construction funding for the third consecutive year. In years past, the Committee has found ways to authorize court-related projects. I have taken the position that if the Administration does not see fit to request funding for these

projects, and will not explain the reasoning behind that decision, the Congress and particularly this Committee, cannot go forward with authorizing projects until and unless the Administration is committed to this program.

With that, I would like to welcome our witnesses and look forward to what creative ideas they will share with us today.

Mr. HORN. The ranking member on the Subcommittee on Government Management, Information, and Technology is Mr. Turner. The gentleman from Texas and your opening statement would be welcome.

Mr. TURNER. Thank you, Mr. Chairman. We are here today to exercise the responsibility of the Congress to oversee the management of Federal property. As we know, the Federal Government's real estate portfolio is vast and diverse, and one size clearly does not fit all.

As we move into the next millenium, and the government hopefully continues to operate more like a business, Federal property management must also become more flexible and more innovative.

Today, we will hear about recent efforts to engage in alternative and innovative management practices at the Federal level. We will also hear about unique Federal partnerships with other public, nonprofit, and for profit entities.

For the past 50 years, Federal property has been purchased, managed, and disposed of under the authority of the Federal Property and Administrative Services Act of 1949. The principles established by this law have worked extremely well over the years, assuring the American people the value of Federal property will be maximized.

While discussing this issue today, I think it's appropriate to recognize the invaluable contribution and achievements of a former Government Reform Committee staff member, Mr. Miles Romney, who devoted his career to public service and devoted his attention to Federal property management issues. He recently succumbed to cancer.

Mr. Romney left an indelible mark on Federal property management and the Government Reform Committee, serving on this committee staff continuously from 1956 to 1997. As we look to new approaches, we would do well to remember Mr. Romeny, who was guided by the belief that Federal property was a sacred trust held by the government for the American people.

It is my belief that it is the government's responsibility to use Federal property wisely and efficiently; and when it is no longer needed, the government must assure that its disposal occurs without prejudice or favor.

While the policies and principles of the 1949 Property Act have served us well, it may be time to consider modifying particular aspects of the law to encourage more innovative and modern approaches to management and disposal.

For example, certain types of public-private partnerships have proven to be very successful, and we will hear about the characteristics of their success today. In addition, Congress could consider increasing incentives for agencies to dispose of property that they no longer need by allowing them to retain a portion of the revenue generated by the sale. These are just a few ideas that we should explore vigorously.

I look forward to the testimony from all of the witnesses today



and thank Chairman Horn and Chairman Franks for holding this hearing today.

Thank you, Mr. Chairman.

Mr. HORN. I thank the gentleman.

[The prepared statement of Hon. Jim Turner follows:]

**OPENING STATEMENT FOR THE HONORABLE JIM TURNER  
“OVERSIGHT OF FEDERAL REAL PROPERTY MANAGEMENT:  
OBSTACLES AND INNOVATIVE APPROACHES TO EFFECTIVE  
PROPERTY MANAGEMENT”**

**APRIL 29, 1999**

I am pleased that we have the opportunity today to discuss federal property management. The federal government's real estate portfolio is vast and diverse. One size clearly does not fit all. As we move into the next millennium and the government operates more like a business, federal property management must also become more flexible, more innovative. Today we will hear about recent efforts to engage in alternative and innovative management practices at the federal level. We will also hear about unique federal partnerships with other public, nonprofit, and for profit entities.

For the past 50 years, federal property has been purchased, managed, and disposed of under the authority of the Federal Property and Administrative Services Act of 1949 (the 1949 Property Act). The principles established by this law have worked extremely well over the years, assuring the American people that the value of federal property will be maximized.

While discussing this issue, it is appropriate to recognize the invaluable contribution and achievements of a former Government Reform Committee staff member, Mr. Miles Romney, who devoted his career in public service to federal property management and recently succumbed to cancer. Miles left an indelible mark on federal property management and the Government Reform Committee, serving on this Committee's staff continuously from 1956 to 1997.

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While the policies and principles of the 1949 Property Act have served Americans well, it may be time to consider modifying particular aspects of the law to encourage more innovative, modern approaches to management and disposal. For example, certain types of public-private partnerships have proven to be very successful, and we will hear about the characteristics of their success today. In addition, Congress could consider increasing incentives for agencies to dispose of property that they no longer need by allowing them to retain a portion of the revenue generated by the sale. These are just a few of the ideas that we should explore vigorously.

I look forward to the testimony from all of the witnesses today, and would like to thank Chairman Horn of the Government Management Information and Technology Subcommittee and Chairman Franks of the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation (the Public Buildings Subcommittee) for holding this hearing.

Mr. HORN. And now the ranking member for Mr. Franks' subcommittee, the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation of the full Committee on Transportation and Infrastructure, Ms. Norton, the Delegate from the District of Columbia.

Ms. NORTON. Thank you, Mr. Chairman.

I ask unanimous consent to incorporate the statement of the ranking member, Mr. Wise, who is unable to be here this morning before I make my own statement.

Mr. HORN. Without objection.

[The prepared statement of Hon. Robert E. Wise follows:]

**Statement**  
**Robert E. Wise**  
**Subcommittee on Public Buildings and Economic Development,**  
**Hazardous Materials and Pipeline Safety, joint hearing with**  
**Subcommittee on Government Management**  
**4.29.99**

Thank you, Mr. Chairman. It is a pleasure to be here this morning and to be holding this hearing with the Government Reform Committee, Subcommittee on Government Management - a committee with which the Transportation Committee has a great deal in common.

The concepts of effectiveness and efficiency for government operations are grounded in the Federal Property and Administrative Services Act as well as the Public Buildings Act and are the genesis of the General Services Administration.

Through thoroughly modern management practices, government wide policies, and state-of-the-art systems the GSA can have a profound effect on the administrative budgets of all federal agencies. GSA is more than the largest real estate operation, and the nation's procuring agent. In its government wide policy role the agency shapes procedures - determining agency expenses which are clearly reflected in various budgets.

GSA can and should be a lead agency in overall facilities management issues. Although the governments' holdings are extremely varied, ranging from battle ships to vest pocket parks, the inventory could benefit from such practices as uniform accounting standards and perhaps a central disposal entity.

The state of the nation's inventory is well documented - it is deteriorating - and it has been for quite some time. For example, almost 20 years ago, the nation almost lost Ellis Island for lack of capital funds. As Congress has struggled to balance the budget, funding for our infrastructure has become a casualty of the struggle.

The witnesses here this morning are experts in trying to do more with less and according to GAO some are the beneficiaries of statutory authority, good organizational structure, and solid support on Capitol Hill and within the local community.

I am interested in hearing from these witnesses and thank you, Mr. Franks and Mr. Horn, for providing the opportunity for us to learn more about best practices from both inside and outside the government.

Ms. NORTON. I appreciate your leadership, Mr. Chairman, and that of my own chairman, Mr. Franks, in organizing this important hearing about a subject badly in need of oversight, the oversight of real property management of the Federal Government.

I have two concerns that I would like to discuss in opening this hearing. The first is my long-time interest in the effect of the scoring rules, which have essentially destroyed any National Building Program of the United States of America.

Originally proposed as a way to control the budget, these rules have had an unintended effect that we have not been able to overcome. They have wreaked havoc on GSA's ability to house the Federal work force. And they cost us billions of dollars in rent because we are unable to build on Federal land often in order to house Federal facilities.

This matter is of such urgency that I went and testified last year before the President's Commission on Capital Budgeting. I myself favor a capital budget for the Federal Government and believe it is only out of a long tradition that we don't have a capital budget.

States, localities, and cities have learned how to work capital budgets so that they don't get out of hand and so that they do control expenditures and so that you do spend capital funds for capital budgeting and operational funds for operational matters. It is time that the Federal Government learns that, and we will not be able to effectively manage our real property for the Federal Government unless we come into the 20th century when it comes to capital budgeting.

I have a special interest as well, Mr. Chairman, in the discussion that we will take here today about public-private partnerships. Among the ways in which this will be discussed undoubtedly will be the report of the GAO entitled, "Public-Private Partnerships Key Elements of Federal Building and Facility Partnerships."

I note that the report focuses on a number of elements that all of these effective partnerships had. One of those elements was specific legislation. And among the six projects that is studied as an effective public-private partnership is the Presidio.

I note, for the record, that in the Nation's Capital, there is an enormous tract of land owned by the Federal Government, 57 acres 55 acres at the Southeast Federal Center. If this land were in the hands of private developers, its worth would be off the charts. The Federal Government has let this land, within 5 minutes of the Capitol, lie fallow.

The Defense Department understood what to do when Crystal City, a naval operation closed in Arlington. They moved to renovate the Navy Yard in the District of Columbia, which is right next to the Southeast Federal Center. And, of course, it is now well along the way of being rehabilitated.

They are anxious that the Federal Government take this strip of land and do something with it. If you don't do something with it, we are going to sell it to somebody who will because it is one of the most expensive pieces of land on the East Coast, given its location and its proximity.

The major difficulty has been that Federal agencies want to be on Constitution Avenue or K Street. And somehow or the other, OMB and GAO, despite the billions it costs us now to rent for

space for Federal agencies that don't have the wherewithal to, in fact, get agencies to come to this location so close to the Capitol.

One way to utilize this land might be to form some form of Federal public-private partnership like the ones that the GAO has studied. I welcome the opportunity to hear more about how this has been done in other jurisdictions.

And I particularly commend your leadership and that of Mr. Franks for the hearing that you called today.

Thank you, Mr. Chairman.

Mr. HORN. Thank you.

The gentlewoman from the District of Columbia makes a number of very important points, especially with regard to the capital budget. Mr. Clinger, when he chaired the Committee on then Government Operations, now Government Reform, he was very interested that we have held hearings on it. We haven't forgotten it. This is a case of getting some people to wind down and others to wind up. I think some of the testimony this morning will be immensely helpful.

Let me just give you the procedural way this hearing will be conducted. Since we are an investigating Committee of Government Reform, all witnesses will be sworn in. And the first two panels I will preside over. The third panel, the tough one, Mr. Franks will preside over. That's the General Services Administration, our good friends. They have testified before us many times, and Mr. Franks knows more about them than I do. So he will preside over the third panel.

Also, we would like you to summarize your statements as best you can. We have your statements. We have read your statements. If you could do it in 5 or 8 minutes, that would be fine, but that would leave us more time for a dialog with you. And that is what we like is to, having read your statement, having heard your summary, we can get down to some questions. Your full statement is automatically put in the minute we call on you. So we don't need a lot of "without objection, we will do this and that." It is in the record.

We will ask the first panel that is here, we have Mr. William Gregory, member, Committee to Assess Techniques for Developing Maintenance and Repair Budgets for Federal Facilities of the National Research Council. It sort of sounds like a doctoral dissertation. Usually, there is something and a colon that goes on for three sentences in science. But we are deeply grateful for the work the Research Council has done.

And a long time friend of both our subcommittees, Mr. Christopher Mihm, the Associate Director of Federal Management and Workforce Issues, General Government Division, General Accounting Office, part of the legislative branch, does a splendid job. We always use the GAO to be the principal nonpartisan above-the-battle type of witness to pull all the pieces together. We might well ask the GAO and others to sit with the third panel. We always ask them if they have any comments after their formal statements after they have listened to the testimony.

I think let's just start with panel one. And you have some assistants with you. Let's swear them all in at once so that we don't if there are others that are going to speak behind you, I am used to



the Pentagon and bringing a squad or company or maybe a battalion of aides, and I just like to have a mass baptism of swearing in, and then we get down to business.

So if you will stand and raise your right hands.

[Witnesses sworn.]

Mr. HORN. I note seven members standing, and the clerk will note that for the record.

We will now begin with Mr. Gregory, the member of the National Research Council committee that has taken a real look at these questions on maintenance and repairing of bridges for Federal facilities. So please proceed, Mr. Gregory.

**STATEMENTS OF WILLIAM GREGORY, MEMBER, COMMITTEE TO ASSESS TECHNIQUES FOR DEVELOPING MAINTENANCE AND REPAIR BUDGETS FOR FEDERAL FACILITIES NATIONAL RESEARCH COUNCIL; AND J. CHRISTOPHER MIHM, ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GENERAL ACCOUNTING OFFICE**

Mr. GREGORY. Good morning, Chairman Horn and Chairman Franks and members of the Subcommittee on Government Management, Information, and Technology and the Subcommittee on Economic Development, Public Building, Hazardous Materials and Pipeline Transportation.

My name is William L. Gregory. I am manager of environmental and facilities management at Kennametal, a global provider of industrial tooling systems with annual revenues of nearly \$2 billion per year and 13,000 employees.

At Kennametal, I am responsible for environmental health and safety, real estate, corporate building operations, strategic facility planning, and construction management for all major facility projects on a global basis. I am also past international president of the International Facility Management Association in which capacity I oversaw IFMA's operations consisting of 13,000 members and 130 chapters as well as international development and formation of public alliances.

I am testifying here today in my capacity as a member of the National Research Council appointed committee that produced the report "Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets." The National Research Council is the operating agency of the National Academy of Sciences and the National Academy of Engineering.

Jack E. Buffington, the chairman of the NRC committee sends his regrets that he is not able to be here today. Ms. Lynda Stanley of the National Research Council who provided staff support to our committee is here.

The "Stewardship of Federal Facilities" report addresses a wide range of management and budgeting issues related to the maintenance and repair of the 500,000 buildings and facilities owned by the Federal Government worldwide. They represent an investment of more than \$300 billion taxpayer dollars. Upwards of \$20 billion per year is spent to acquire new facilities or substantially renovate existing ones. Yet, it is difficult, if not impossible, to determine how much money the Federal Government spends for the maintenance and repair of these facilities once they are acquired.

Over the course of the study, our committee came to two overriding conclusions. No. 1, the Federal Government should plan strategically for the maintenance and repair of its facilities in order to optimize available resources, to maintain the functionality and quality of Federal facilities, and to protect the public's investment.

No. 2, greater accountability for the stewardship or responsible care of facilities is needed at all levels of the Federal Government. Accountability includes responsibility for the condition of facilities and for the allocation, tracking, and effective use of maintenance and repair funds.

The committee's specific findings relating to Federal facilities-maintenance budget and management issues are extensive. I will highlight the 7 key findings related to the current state of Federal facilities and their management to provide the context for the committee's recommendations.

No. 1, evidence is mounting that the physical condition, functionality, and quality of Federal facilities continues to deteriorate. Many Federal buildings require substantial repairs to bring them up to acceptable standards of health, safety, and quality.

No. 2, inadequate funding for facilities maintenance and repair programs is a persistent, long-standing and well-documented problem.

No. 3, some agencies own and are responsible for more facilities than they need to support their missions or that they can maintain with current or projected budgets.

No. 4, the relationship of facilities to agency missions is not recognized adequately in Federal strategic planning and budgeting processes.

No. 5, there are few rewards or incentives for Federal facilities program managers to act in a cost-effective fiscally responsible manner to be innovative or to take risks that might result in better management practice. In fact, current management, budgeting, and financial processes have disincentives and institutional barriers to cost-effective facilities management and maintenance practices.

No. 6, agencies have not been able to make effective use of the data they gather through condition assessments for timely budget development or for ongoing management of facilities.

And last, No. 7, the type of information that decisionmakers find compelling to support maintenance and repair budget requests is not available.

Public officials and decisionmakers want to know how much money will be saved in the future by spending money today on maintenance and repair. That information is not available because only a limited amount of research has been done to identify effective facility management strategies for achieving cost savings, identifying cost avoidances, and providing safe, healthy productive work environments.

To address these findings systematically, our committee developed a strategic framework of methods, practices, and strategies that can lead to a better maintained and better managed inventory of Federal facilities.

To plan strategically for maintenance and repair and to create greater accountability for the stewardship of Federal facilities, the committee made the following 11 recommendations.

No. 1, facility investment and management should be directly linked to agency mission. A facility element should be incorporated into each agency's strategic plan to link facilities to agency mission and establish a basis and rationale for maintenance and repair budget requests.

No. 2, long-term requirements for maintenance and repair expenditures should be reduced by reducing the size of the Federal facilities portfolio. New construction should be limited. Existing buildings should be adapted to new uses. And the ownership of unneeded buildings should be transferred to other public and private organizations. Facilities that are functionally obsolete, are not needed to support an agency's mission, are not historically significant, and are not suitable for transfer or adaptive reuse should be demolished when it is cost effective to do so.

No. 3, the condition assessment programs should be restructured to focus first on facilities that are critical to an agency's mission on life, health, and safety issues, and on building systems that are most critical to a facility's performance. This restructuring is needed to optimize available resources, provide timely and accurate data for formulating maintenance and repair budgets, and provide critical information for the ongoing management of facilities.

No. 4, the government and private industry should work together to further develop and integrate technologies for performing automated facility condition assessments and eliminate barriers to their deployment.

No. 5, the government should support research to develop quantitative data that can be used for planning and implementing cost effective maintenance and repair programs and strategies. Research data are also needed to better understand the programmatic impacts of maintenance on mission delivery and on building users' health, safety, and productivity.

No. 6, the government should encourage accountability for the stewardship of Federal facilities at all levels. Within Federal agencies, facilities program managers should justify, identify the resources necessary to maintain facilities effectively and should be held accountable for the use of these resources.

No. 7, at the executive level, an advisory group of senior level Federal managers and other public sector managers, nonprofit and private sector representatives, should be established to develop policies and strategies to foster accountability for the stewardship of facilities and to allocate resources strategically for their maintenance and repair.

The committee believes such a group is needed to give greater visibility to the issue of Federal facilities maintenance, management, and plan more strategically. A senior level advisory group could focus on a wide range of facility management related topics, some of which are suggested on pages 73 and 74 of this report.

No. 8, the government should adopt more standardized cost accounting techniques and processes to allow for more accurate tracking of maintenance and repair funding requests, allocations, and expenditures, and reflect the total cost of facilities ownership. The committee developed an illustrative budget template that differs from current practices because of it accounts for the full range of facility management costs in one place.

No. 9, governmentwide performance measures should be established to evaluate the effectiveness of facilities maintenance and repair programs and expenditures.

No. 10, facility program managers should be empowered to operate in a more businesslike manner. By removing institutional barriers and providing incentives for the cost-effective use of maintenance and repair funds. The carryover of unobligated funds and the establishment of revolving funds for nonrecurring maintenance needs should be allowed if they are justified.

And No. 11, and last, the government should provide appropriate and continuous training for a staff performing condition assessments and/or developing and reviewing maintenance and repair budgets to foster an informed decisionmaking process.

In summary, the Federal Government has a significant opportunity to strategically redirect Federal facilities management and maintenance practices for the 21st century. This will require long-term vision, commitment, leadership, and stewardship by decision-makers and agency managers. The results will be a significant improvement in the quality and performance of Federal facilities, lower overall maintenance costs, and protection of the public's investment.

Thank you for the opportunity to review the findings and recommendations of the "Stewardship of Federal Facilities" report. I will try and answer any questions you may have.

Mr. HORN. Thank you very much.

[NOTE.—The GAO publication, "Public-Private Partnerships, Terms Related to Building and Facilities Partnerships," may be found in subcommittee files.]

[The prepared statement of Mr. Gregory follows:]

**STEWARDSHIP OF FEDERAL FACILITIES: A PROACTIVE STRATEGY FOR  
MANAGING THE NATION'S PUBLIC ASSETS**

STATEMENT OF

**WILLIAM L. GREGORY**  
MEMBER OF THE NATIONAL RESEARCH COUNCIL COMMITTEE TO ASSESS  
TECHNIQUES FOR DEVELOPING MAINTENANCE AND REPAIR BUDGETS FOR  
FEDERAL FACILITIES

AND

**MANAGER OF CORPORATE FACILITIES MANAGEMENT**  
**KENNAMETAL, INCORPORATED**

**BEFORE THE**  
**SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,**  
**INFORMATION, AND TECHNOLOGY**

AND THE

**SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, HAZARDOUS**  
**MATERIALS AND PIPELINE TRANSPORTATION**

**U.S. HOUSE OF REPRESENTATIVES**

**APRIL 29, 1999**

Good morning Chairman Horn and Chairman Franks, and members of the Subcommittee on Government Management, Information and Technology, and the Subcommittee on Economic Development, Public Buildings, Hazardous Materials and Pipeline Transportation.

My name is William L. Gregory. I am the manager of Corporate Facilities Management at Kennametal, Incorporated, a global provider of industrial tooling systems with annual revenues of nearly \$2 billion and 13,000 employees worldwide. At Kennametal, I am responsible for real estate, corporate building operations, strategic facility planning, corporate environmental, health and safety programs, space and construction management, and installations for all major facility projects on a global basis. I am also a past international president of the International Facilities Management Association (IFMA), in which capacity I oversaw IFMA's operations, international development, and formation of professional alliances.

I am testifying here today in my capacity as a member of the National Research Council appointed committee that produced the report *Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets*. The National Research Council is the operating agency of the National Academy of Sciences and the National Academy of Engineering which were chartered by Congress to advise the government on matters of science and technology. [Information re: NRC contracts and grants with the Federal Government is included on Attachment A]

Jack E. Buffington, the Chairman of the NRC Committee, sends his regrets that he is not able to be here today. Ms. Lynda Stanley of the National Research Council, who provided staff support to our Committee, is here.

The *Stewardship of Federal Facilities* report was initiated as a follow-up study to a 1990 report of the National Research Council titled *Committing to the Cost of Ownership: Maintenance and Repair of Public Buildings*. That report contained the recommendation that "an appropriate budget allocation for routine maintenance and repair for a substantial inventory of facilities will typically be in the range of 2 to 4 percent of the aggregate current replacement value of those facilities". Almost a decade has passed since that recommendation was made. Many changes have occurred in the federal government and it was felt appropriate to revisit the issue in today's operating environment.

Early in our study process, it became clear that the stewardship of federal facilities is more than just a matter of appropriating funds for maintenance and repair and involves a wide range of management and budgeting issues. Federal facilities embody significant investments and resources and, in essence, constitute a portfolio of public assets. These assets must be well maintained to operate adequately and cost effectively, to protect their functionality and quality, and to provide a safe, healthy productive environment for the people who work in and visit them every day.

To address the identified management and budgeting issues systematically, our Committee developed a strategic framework of methods, practices, and strategies that, if implemented, can lead to a better maintained and better managed inventory of federal facilities. In the

Committee's judgment, such an integrated and strategic approach to facilities management will result in significant cost savings both in terms of short-term operations and the long-term life cycle of facilities.

I will first review the Committee's findings relating to federal facilities maintenance, budget and management issues. Many findings are interrelated so it is difficult to place them in clear-cut categories. Generally speaking, the findings relate to the physical condition and size of the facilities inventory; accountability for stewardship, the budget structure; and management practices. The list of findings is extensive but provides the context for the Committee's recommendations.

### **Report Findings**

#### *Physical Condition and Size of Inventory*

The U.S. government owns more than 500,000 buildings, monuments, and other structures, located in all 50 states and 160 foreign countries. These facilities have been acquired over the course of 200 years to support the conduct of the government's business. The Federal facilities portfolio includes historically significant, easily recognized public symbols such as the White House, the U.S. Capitol, and the Washington Monument. The vast majority of this portfolio is comprised of military installations, embassy compounds, libraries, museums, hospitals, housing, research laboratories, office buildings, courthouses, prisons, warehouses, depots, and parks.

The total inventory of facilities represents the investment of more than \$300 billion taxpayer dollars. Upwards of \$20 billion is spent annually to acquire new facilities or substantially renovate existing ones. Yet, it is difficult, if not impossible, to determine how much money the federal government as a whole appropriates and spends for the maintenance and repair of these facilities after they are acquired. This is attributable, in part, to a lack of consistency across agencies in tracking maintenance and repair expenditures. Agencies use several different methods to define and calculate facilities-related budget items, such as current replacement value. Agencies also use varying methodologies for developing budgets and different systems to account for and report expenditures.

Evidence is mounting that the physical condition, functionality, and quality of federal facilities is deteriorating. The General Accounting Office has reported that many federal buildings require substantial repairs to bring them up to acceptable standards of health, safety and quality. In addition, the GAO has reported that some agencies have excess, aging facilities and insufficient funds to maintain, repair, or update them.

The number of excess facilities is increasing as agencies realign their missions. One of every five military bases is already slated to be closed and the closure process may continue in the future. The Department of Energy reports having surplus nuclear facilities that require deactivation and the State Department has identified over 100 overseas properties for potential sale.

The closure of facilities does not automatically translate to lower maintenance and repair costs. The GAO found, for instance, that the overall costs to maintain military bases closed in the 1988 and 1991 rounds was approximately \$290 million through fiscal year 1996 because the Department of Defense has attempted to keep the facilities in a reusable condition in response to the demands of the surrounding communities. Transferring the ownership of a federal facility to another public or private organization brings with it the responsibility to meet environmental regulations, which can be costly. Demolition of excess facilities could be cost-effective in the long term but requires a significant up-front investment of funds. The military services estimate that demolition costs for facilities other than World War II era wooden barracks range from \$8 to \$12 per square foot. In a 1997 report, GAO calculated that it will take the Army alone about 13 years to eliminate its excess space at a cost of about \$1.3 billion. The disposition of former nuclear sites and their associated facilities present unique situations that are not easily resolvable through any of the aforementioned strategies.

#### *Accountability for Stewardship*

The NRC Committee found that Federal government processes and practices are generally not structured to provide effective accountability for the stewardship of federal facilities. Congress, the Office of Management and Budget, federal agency senior executives, facilities program managers, and field staff all make decisions that affect maintenance and repair programs. Because decision-making authority is so widely dispersed, no single entity can be held responsible or accountable for the results.

Inadequate funding for the maintenance and repair of public buildings at all levels of government and academia is a long standing and well documented problem. Although we can't state exactly how much money is spent on maintenance and repair, agencies that briefed the Committee consistently reported that they received less than 2% of the aggregate current replacement value of their inventory. This level of funding is below the 2-4% guideline that is widely quoted in facilities management literature.

Several factors contribute to the lack of adequate funding. Maintenance and repair expenditures generally have less visible or less measurable benefits than other operating programs. There is the tacit assumption that maintenance and repair can always be deferred one more year or 5 more years in favor of more visible projects. However, in the short term, deferring maintenance diminishes the quality of building services. In the long term, it can lead to a shorter service life and reduced asset value.

The scope of the problem is evident in the magnitude of deferred maintenance backlogs reported by agencies. The costs of eliminating these backlogs are estimated to be in the tens of billions of dollars. The total dollar amounts and the methods for arriving at these figures can be argued. However, the existence of deferred maintenance implies that the quality or reliability of service provided by the infrastructure is less than it should be to adequately serve the public.

The Committee also found that the type of information that decision-makers find compelling to support maintenance and repair budget requests is not available. A report by the Urban Land



Institute concluded that public officials and decision-makers want to know "How much money will be saved in the future by spending money today on maintenance and repair?" However, only a limited amount of research has been done on the deterioration/failure rates of building components or the nonquantitative implications of building maintenance (or lack thereof). This research is necessary to identify effective facilities management strategies for achieving cost savings, identifying cost avoidances, and providing safe, healthy, productive work environments.

#### *Federal Budget Structure*

Inadequate funding can also be attributed to the federal budget structure. When Congress appropriates funding to the agencies, funding for maintenance and repair activities is not earmarked but is subsumed in the larger operations budget. This budget structure provides agencies with some flexibility in allocating funding to operations or to maintenance to respond to changing conditions. However, budgetary pressures on federal agency managers encourage the diversion of potential maintenance and repair funds to current operations, to meet new legislative requirements, or to pay for operating new facilities coming on line.

The current budget structure places the emphasis on design and construction costs, the so-called first costs of facilities versus total or life cycle costs. Studies show that design and construction costs account for 5-10% of the total cost of a building over its service life. In contrast, operations and maintenance accounts for 60-85% of the total costs of ownership. Yet, when Congress and the agencies review requests for new facilities, the budget process is structured such that the first costs of facilities receive the primary attention by Congress and the agencies, not life cycle costs.

The relationship of facilities to agency missions is not recognized adequately in federal strategic planning and budgeting processes. Agencies and Congress consider how facilities support a mission when allocating funds for new facilities. Once built, the relationship between facilities and mission is generally taken for granted even though facilities in deteriorating condition can negatively impact agencies' missions and changing mission needs can negate the need for some facilities.

#### *Management Practices*

Performance measures to determine the effectiveness of maintenance and repair expenditures have not been developed within the federal government. Thus, it is difficult to identify best practices for facilities maintenance and repair programs across or within federal agencies.

There are few rewards or incentives for facilities program managers to act in a cost-effective, fiscally responsible manner, to be innovative or to take risks that might result in better management practices. In fact, current management, budgeting, and financial processes contain disincentives and institutional barriers to cost-effective facilities management and maintenance practices. The GAO has reported that there is a certain budget bias against capital projects because no distinction is made between an outlay for a capital asset that produces a future stream

of benefits and an outlay for current operations. Because of the magnitude of capital outlays in the short term, they may be foregone to meet short-term budget restraints despite their long-term benefits. Furthermore, it is currently not in any manager's interest to admit to "savings" for fear that future budgets will be reduced. The carryover of funds from one fiscal year to the next is not generally allowed, even if it may be cost-effective to do so.

Based on the available information, the Committee found that programs to assess the physical condition of federal buildings are labor intensive, time consuming, and expensive. Agencies have not been able to make effective use of the data they gather through condition assessments for timely budget development or for the ongoing management of facilities.

In response to these issues and downsizing, facilities program managers are looking increasingly to technology solutions to provide facilities-related data for decision-making and for performing condition assessments. The Committee found that existing sensor and microprocessor technologies offer the potential to monitor and manage a range of building conditions and environmental parameters but, for economic and other reasons, have not been widely deployed. In the Committee's opinion, adequate training for staff is a key component in fostering effective decision making in performing condition assessments and developing and reviewing maintenance and repair budgets.

#### **Report Recommendations**

After identifying and reviewing all of these issues, the NRC Committee came to two overriding conclusions:

- (1) The federal government should plan strategically for the maintenance and repair of its facilities in order to optimize available resources, to maintain the functionality and quality of federal facilities, and to protect the public's investment.
- (2) Greater accountability for the stewardship, or responsible care, of facilities is needed at all levels of the federal government. In the Committee's estimation, accountability includes responsibility for the condition of facilities and for the allocation, tracking, and effective use of maintenance and repair funds.

To plan strategically for maintenance and repair, the Committee made the following five recommendations:

- 1) Facility investment and management should be directly linked to agency mission. A facilities element should be incorporated into each agency's strategic plan to link facilities to agency mission and establish a basis and rationale for maintenance and repair budget requests.
- 2) Long-term requirements for maintenance and repair expenditures should be reduced by reducing the size of the federal facilities portfolio. New construction should be limited; existing buildings should be adapted to new uses, and the ownership of unneeded buildings

should be transferred to other public and private organizations. Facilities that are functionally obsolete, are not needed to support an agency's mission, are not historically significant and are not suitable for transfer or adaptive reuse should be demolished when it is cost effective to do so.

- 3) Condition assessment programs should be restructured to focus first on facilities that are critical to an agency's mission; on life, health, and safety issues; and on building systems that are most critical to a facility's performance in order to optimize available resources, provide timely and accurate data for formulating maintenance and repair budgets, and provide critical information for the ongoing management of facilities.
- 4) The government and private industry should work together to further develop and integrate technologies for performing automated facility condition assessments, and eliminate barriers to their deployment.
- 5) The government should support research on the deterioration/failure rates of building components and the nonquantitative impacts of building maintenance (or lack thereof) in order to develop quantitative data that can be used for planning and implementing cost-effective maintenance and repair programs and strategies and for better understanding the programmatic impacts of maintenance on mission delivery and on building users' health, safety, and productivity.

The Committee also recommended six strategies for creating greater accountability for stewardship, as follows:

- 1) The government should encourage accountability for the stewardship of federal facilities at all levels. Within federal agencies, facilities program managers should identify and justify the resources necessary to maintain facilities effectively and should be held accountable for the use of these resources.
- 2) At the executive level, an advisory group of senior level federal managers, other public sector managers, nonprofit, and private sector representatives should be established to develop policies and strategies to foster accountability for the stewardship of facilities and to allocate resources strategically for their maintenance and repair.
- 3) The government should adopt more standardized cost accounting techniques and processes to allow for more accurate tracking of maintenance and repair funding requests, allocations, and expenditures and reflect the total costs of facilities ownership. To these ends, the committee developed an illustrative budget template.

The total cost of facilities is the key concept underlying the illustrative template. The template includes 6 categories of facility costs: Routine maintenance, repairs, and replacements; Facilities-related operations; Alterations and capital improvements; Legislatively mandated activities; New construction and total renovations; and Demolition. The template differs from current practices in that it accounts for full range of facilities management costs in one place. It allows decision-makers and others to have a much clearer

understanding of the long-term costs of a new facility rather than just the first costs. It also shows which items should be included within the 2-4% guideline and those that should not.

- 4) Government-wide performance measures should be established to evaluate the effectiveness of facilities maintenance and repair programs and expenditures.

Performance measures are now required under the Government Performance and Results Act of 1993. Unlike budgeting practices that have developed over several decades, performance measures are not yet ingrained into agencies' procedures. For that reason, a significant opportunity exists to develop facilities management-related performance measures that can be used throughout the government. Over time, results of facilities management practices could be compared across and within agencies and best practices could be identified.

- 5) Facilities program managers should be empowered to operate in a more businesslike manner by removing institutional barriers and providing incentives for the cost-effective use of maintenance and repair funds. The carryover of unobligated funds and the establishment of revolving funds for nonrecurring maintenance needs should be allowed if they are justified.
- 6) The government should provide appropriate and continuous training for staff performing condition assessments, and/or developing and reviewing maintenance and repair budgets, to foster informed decision making on issues related to the stewardship of federal facilities and the total costs of facility ownership.

In summary, the Federal government has a significant opportunity to strategically redirect federal facilities management and maintenance practices for the 21<sup>st</sup> Century. This will require long-term vision, commitment, leadership, and stewardship by decision-makers and agency managers. The results will be a significant improvement in the quality and performance of federal facilities, lower overall maintenance costs, and protection of the public's investment.

Thank you for the opportunity to review the findings and recommendations of the *Stewardship of Federal Facilities* report.

**Attachment A: Summary of Federal Funds Received by National  
Research Council Fiscal Year 1998**

**U.S. GOVERNMENT AGENCIES (GRANTS AND CONTRACTS)**

Agency for International Development	\$1,017,939
Department of Defense	244,885
Department of the Air Force	3,765,602
Department of the Army	11,730,644
Defense Logistics Agency	3,672
Defense Mapping Agency	2,352
Defense Supply Service	1,802,183
Defense Special Weapons Agency	1,453,174
Defense Technical Information Center	19,611
Department of the Navy	6,389,894
Commission on Immigration Reform	69,492
Department of Commerce	7,557,481
Department of Health and Human Services	12,924,454
Department of Energy	20,514,872
Department of Labor	(3,424)
Department of Transportation	33,668,336
Department of Education	5,063,226
Environmental Protection Agency	5,246,254
Executive Office of the President	1,110,820
Federal Emergency Management Agency	216,345
General Services Administration	44,894
Housing and Urban Development	5,199
Department of the Interior	1,584,951
Department of Justice	154,058
National Aeronautics and Space Administration	18,569,376
Nuclear Regulatory Commission	44,887
National Security Agency	68,835
National Science Foundation - Contracts	1,286,790
National Science Foundation - Grants	10,725,360
Smithsonian Institution	18,674
Social Security Administration	503,532
Department of State	1,074,543
Department of the Treasury	689,558
U.S. Department of Agriculture	1,144,861
U.S. Postal Service	31,230
Veterans Administration	1,854,580
Indirect cost underrecovery due from the gov't.	2,786,993
<b>TOTAL U.S. GOVERNMENT AGENCIES</b>	<b>\$153,386,133</b>
<b>PRIVATE AND NONFEDERAL SOURCES</b>	
Grants and contracts	\$20,774,709
Contributions	7,361,883
<b>TOTAL PRIVATE AND NONFEDERAL SOURCES</b>	<b>\$28,136,592</b>

Source: 1998-99 National Research Council Treasurer's Report

Mr. HORN. We now move to Mr. Mihm. And after he finishes, we will have questions of panel one.

Mr. Mihm, as I noted earlier, is the Associate Director of Federal Management Workforce Issues, General Government Division of the General Accounting Office.

Mr. Mihm.

Mr. MIHM. Thank you, Mr. Horn, Mr. Franks, and members of the subcommittees. It is a pleasure and an honor to be here today to discuss the findings of our recent report on public-private partnerships. We did this report at the request of Chairman Horn.

I am fortunate today to be joined by Don Bumgardner, who is the project manager for our work on partnerships, and in addition, our colleague, Peter Del Toro, was also instrumental to our work on this partnership report.

I am also pleased to provide the subcommittee with a Glossary of Terms, Practices and Techniques related to Buildings and Facility Partnerships that was released earlier this week. We did this, of course, at the request of you Mr. Horn and Mr. Franks as well.

In the interest of brevity and getting to the discussion as you requested, I will just hit a couple of high points this morning. First, I would like to note some of the long-standing management weaknesses that are leading agencies to think more strategically when managing buildings and facilities.

Second, I will discuss one response to those challenges, the public-private partnerships and highlight the common elements of the six Federal partnerships we examined for our report.

In terms of my first point, the need to think strategically about the Federal Government's assets, as you noted in your opening statement, Mr. Horn, the Federal Government is one of the world's largest property owners. Our work and that of others, certainly of our colleagues here today, over the last several years has identified several important weaknesses in Federal agencies management and maintenance of facilities and real property.

At the most fundamental level, as Mr. Horn and Mr. Franks have noted in their opening statements, is a need to think strategically about the use of Federal assets, Mr. Gregory covered many of these issues very well, so I won't reiterate them here.

But just to underscore the point, over half of the government's office buildings are roughly 50 years old and were designed and located to meet the needs of an earlier era. Clearly we need to think more strategically as we approach the 21st century on how we are going to use public assets. To make better use of their buildings and facilities, Federal agencies are responding by increasingly striving to manage them in a more businesslike manner.

I want to now discuss with you my second point by describing our recent work on partnerships between the Federal Government and the private, not for profits and other public entities through contracts or agreements. These arrangements are vehicles that agencies have used to better manage their assets.

Partnerships typically involve a government agency contracting with the partner to renovate, construct, operate, maintain, and/or manage a facility that provides a public service. As you know from our report, we reviewed six partnerships and found five common elements that appeared to play key rolls in the effective implemen-

tation of those partnerships. These elements are shown on the figure on page 4 of my written statement and are discussed in detail in our report. I will touch on each of these.

First, a catalyst for change was needed. Fiscal and community pressures were among the factors that lead agencies to seek better ways of managing their properties, including considering the use of partnerships.

For example, these pressures were the catalyst at the two Park Service projects that we reviewed, including the Presidio, in which the Park Service entered into partnerships to help finance needed preservation efforts.

Second, Congress had to provide statutory authority for the partnership to move forward, including allowing the agency to keep the revenues it received. The legislation was either project specific, as was the case for the Park Service projects, or broader in scope, as was the 1991 law that authorized the Department of Veterans Affairs to lease its properties and retain the resulting revenues.

According to building and facility managers and all of the agencies we reviewed, a primary reason for an agency to enter into the partnerships is the authority to keep for its own use the revenue that it would receive from the partnership. In short, Federal managers told us they needed to have incentives before they were willing to undertake the risks.

A third common element is that agencies established organizational units and acquired the necessary expertise to work effectively with the private sector. For example, the Department of Veterans Affairs established an Office of Asset and Enterprise Development to promote the partnership concept within VA, to design and implement public-private partnership projects, and to be a single point of contact with VA's private sector partners. The office was staffed with professions experienced in portfolio management, architecture, civil engineering, and contracting.

The fourth common element is that agencies used business plans or similar documents to make informed decisions and to protect the government's interests. According to Postal Service officials, the development and execution of business plan, which included information about the division of risks and responsibilities between the Postal Service and its private sector partner, was critical to the success of implementing its large-scale development projects.

For each of the projects we reviewed, business plans were drafted jointly between the public and private sector entities to help ensure the close involvement of both parties in the design and implementation of the project. I would just add that this close involvement in designing these business plans underscores the importance of the point that I was making earlier of making sure that agencies have the human capital and the knowledge base so that they can deal effectively with the private sector.

Finally, a fifth common element was that support for project stakeholders was an important element in developing the partnerships. In all of the projects we reviewed, agencies had to obtain the support of the local community and other stakeholders to create the partnership.

For example, in both of the Park Service projects we reviewed, community leaders who were worried about preserving historic

structures without overcommercializing them, became important and active stakeholders for those projects.

In conclusion, Congress and the Federal agencies need to continue to work together to find approaches that will encourage prudent management of Federal buildings and facilities. When accompanied by sound financial management and appropriate congressional oversight, public-private partnerships are one approach to facilitate effective building and facility management.

The set of common elements that we identified appear to be key to the implementation of the six partnerships we examined. Of particular importance to us is the critical roll that Congress played in providing the authority for—and continuing its oversight of—these projects.

This concludes my statement, and I would be happy to answer any questions that the subcommittee may have.

Mr. HORN. I thank the gentleman.

[The prepared statement of Mr. Mihm follows:]



United States General Accounting Office

**GAO**

**Testimony**

Joint Hearing Before House Subcommittees on  
Government Management, Information and Technology,  
and on Economic Development, Public Buildings,  
Hazardous Materials and Pipeline Transportation

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**PUBLIC-PRIVATE  
PARTNERSHIPS**

**Key Elements of Federal  
Building and Facility  
Partnerships**

Statement of  
J. Christopher Mihm, Associate Director  
Federal Management and Workforce Issues,  
General Government Division



Statement

## Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships

Messrs. Chairmen and Members of the Subcommittees:

I am pleased to be here today to discuss the findings of our recent study on public-private partnerships, which we initiated at the request of Chairman Horn.<sup>1</sup> In your request for the study, you asked us to identify the key elements of partnerships between the federal government and the private sector that were formed to help the government acquire and operate federal real estate and facilities more efficiently and effectively. I am also pleased to provide the Subcommittees with a glossary of terms, practices, and techniques related to building and facility partnerships that was released this week.<sup>2</sup>

Today, I will briefly discuss some of the weaknesses that are making it necessary for agencies to think strategically when managing buildings and facilities. Then, I will focus on one response to these challenges—public private partnerships—and review the key elements and related experiences of the six federal partnerships we examined in our report.

### The Need to Strategically Manage Federal Facilities and Assets

The U.S. government is one of the world's largest property owners, with a real estate portfolio of almost 435,000 buildings and over half a billion acres of land. Most of the government's real property holdings are national parks, forests, other public lands, and military facilities. Overall, government-owned real estate is under the custody and control of at least 30 federal agencies, although most is under the jurisdiction of 8 organizations: the Departments of Agriculture, Defense, Energy, the Interior, and Veterans Affairs; the General Services Administration; the Tennessee Valley Authority; and the U.S. Postal Service.

Our work and that of others over the last several years has identified several important weaknesses in federal agencies' management and maintenance of facilities and real property.<sup>3</sup> The following are a few of the federal agencies' weaknesses in this area:

<sup>1</sup> *Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships* (GAO/GGD-99-23, Feb. 3, 1999).

<sup>2</sup> *Public-Private Partnerships: Terms Related to Building and Facility Partnerships* (GAO/GGD-99-71, Apr. 1999). This glossary was developed to help facilitate a better understanding of asset management terms as they are used in the federal government.

<sup>3</sup> See, for example, *VA Healthcare: Capital Asset Planning and Budgeting Needs Improvement* (GAO/HEHS-99-83, Mar. 10, 1999); *Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets*, National Research Council, Oct. 1998; *National Park Service: Efforts to Identify and Manage the Maintenance Backlog* (GAO/RCEd-98-143, May 14, 1998); *Portfolio Investment Initiative Pilot Program*, General Services Administration, Apr. 1998; *Deferred Maintenance Reporting: Challenges to Implementation* (GAO/AIMD-98-42, Jan. 30, 1998); *Governmentwide Review of Property*

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- **Capital planning:** The relationship of facilities to agency missions has not been recognized adequately in federal strategic planning and budgeting processes. This situation has been exacerbated by the relatively common agency practice of using funds originally intended for maintenance as a contingency fund to meet other needs encountered throughout the year. Furthermore, ineffective governmentwide asset disposal policies, when combined with traditional facility management practices, often restrict agencies from taking fullest advantage of their capital assets.
- **Deferred maintenance:** The deferral of necessary maintenance for public buildings has also often resulted in the permanent reduction of both the facilities' useful life and costly losses in their asset value. The backlog of necessary maintenance has grown so large that the cost of eliminating this situation will likely be in the tens of billions of dollars.
- **Underutilized and unneeded properties:** Over time, numerous agencies have accumulated excess and unneeded facilities that have deteriorated. Federal agencies own and are responsible for more facilities than they need to support their missions or than they can maintain with current and/or projected budgets. Rather than treating these surplus facilities as resources that, properly handled, might be used to advance an agency's mission, agencies often allow them to lay fallow and unused, their potential unrealized.
- **Lack of adequate data:** Agencies have had limited success in making effective use of data they gather for either timely budget development or the ongoing management of facilities. For example, it is difficult to determine how many federal buildings are underutilized or unneeded, or how much money the federal government as a whole spends on the maintenance and repair of federal facilities. Definitions and calculations vary with regard to facilities-related budget items, methodologies for developing budgets, and accounting and reporting systems for tracking maintenance and repair expenditures.

As federal agencies find themselves confronted with these and other problems in an environment simultaneously marked by budgetary constraints and demands to improve service, the importance of their making the most effective use of capital assets is especially great.<sup>4</sup> In

Disposal Policy, General Services Administration, Aug. 15, 1997; Deferred Maintenance, Renovation Requirements, and Identified Issues (GAO/AMD-97-103), May 23, 1997; Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125), May 13, 1997; Computing to the Cost of Ownership, Maintenance and Repair of Public Buildings, National Research Council, 1990.

<sup>4</sup>See Executive Guide: Leading Practices in Capital Decision-Making (GAO/AMD-99-32, Dec. 1998) and Budget Issues: Budgeting for Capital (GAO/T-AMD-98-46, Mar. 6, 1998).

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order to do this, federally owned buildings and land need to be strategically acquired, managed, and disposed of so that the taxpayer's return on the investment is maximized.<sup>4</sup>

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**Public-Private Partnerships**

To maximize returns on buildings and facilities, federal agencies are increasingly interested in managing them in a more businesslike manner. Partnership between the federal government and the private sector through contracts or agreements is one of these approaches. These arrangements typically involve a government agency contracting with a private partner to renovate, construct, operate, maintain, and/or manage a facility or system, in part or in whole, that provides a public service.

The six partnership projects we examined in our report were located in three agencies: the National Park Service (Park Service) within the Department of the Interior, the Department of Veterans Affairs (VA), and the U.S. Postal Service (Postal Service).<sup>5</sup> We selected them on several grounds, including our consultation with building and facility management experts from the public and private sectors.

Although each of the six projects tailored its efforts to address its specific needs and environments, we found five common elements that appeared to play a key role in the implementation of the partnerships we reviewed. These elements are shown in figure 1.

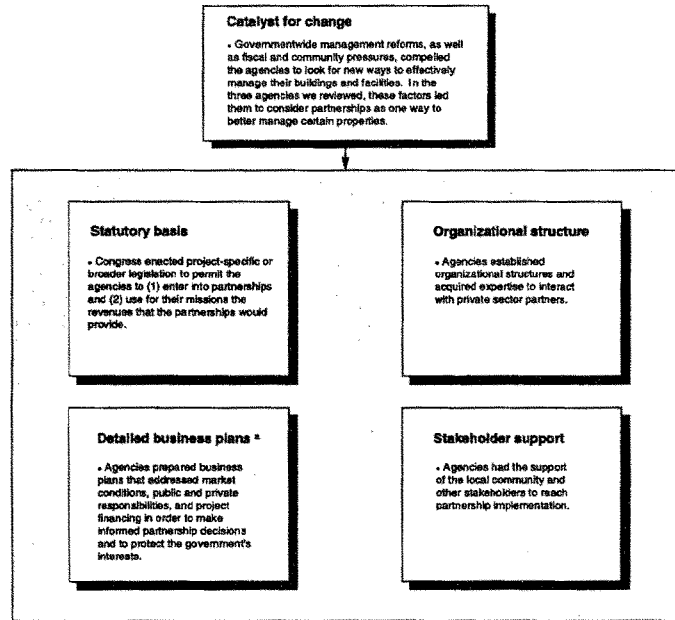
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<sup>4</sup> Federal Real Property: Key Acquisition and Management Obstacles (GAO/T-GGD-93-42, July 27, 1993).

<sup>5</sup> See appendix I of this testimony for a brief description of these projects. Appendices II through IV of GAO/GGD-99-23 contain detailed descriptions of these projects.

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Figure 1: Key Elements of Public-Private Partnerships



Implementation

Note: The sequence in which these key elements occurred during implementation varied by project.

\*Business plans may identify issues that require legislative action.

Source: GAO analysis of selected federal building and facility public-private partnerships.

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### Five Key Factors in the Implementation of Partnerships

First of all, there was a catalyst for change that led each of the three agencies to form a partnership with the private sector. For example, community pressure and fiscal constraints were the catalyst in the two Park Service projects we reviewed, in which the Park Service entered into public-private partnerships mainly to obtain partners that could finance needed preservation efforts.

Second, for all six projects we reviewed, Congress enacted legislation that provided a statutory basis for the agency to enter into the partnership and keep the revenues it received from that partnership. The legislation was either project-specific, as it was for one of the Park Service projects, or broader in scope, as was the 1991 law that authorized VA to lease its properties and retain the resulting revenues. According to building and facility managers in all of the projects we reviewed, a primary reason for an agency to enter into these partnerships was the ability to keep for its own use the revenue that it would receive from the partnership.

Third, the agencies we reviewed also told us that they established organizational structures and acquired the necessary expertise to interact with private-sector partners to ensure effective partnership implementation. For example, VA established an Office of Asset and Enterprise Development to promote the partnership concept within VA, to design and implement public-private partnership projects, and to be a single point of contact with VA's private-sector partners. The office was staffed, VA officials said, with professionals experienced in portfolio management, architecture, civil engineering, and contracting.

Fourth, in all six projects we reviewed, asset management officials used business plans or similar documents to make informed decisions and protect the government's interests. According to Postal Service officials, the development and execution of a business plan, which included information about the division of risks and responsibilities between the Postal Service and its private-sector partner, was critical to its success in implementing its large-scale real estate development projects. For each of the projects we reviewed, business plans were drafted jointly between the public- and private-sector parties to help ensure the close involvement of both parties in the design and implementation of the project.

Finally, support from project stakeholders was an important factor in developing and implementing the public-private partnerships. In all of the projects we reviewed, agencies had the support of the local community and other stakeholders to create the partnership. For example, in the two Park Service projects, community leaders who were worried about

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preserving historic structures without over commercializing them became sponsors of the projects.

In addition to presenting this framework of key elements, our report also contains profiles that provide additional details on each of the partnerships we reviewed. These profiles present specifics on the form of the partnership used in each case, any constraining or facilitating factors present, and the reported results.

In conclusion, Messrs. Chairmen, the set of common elements that we identified appear to be key to the implementation of the six partnerships we examined. Of particular importance was the critical role played by Congress, which had to provide the authority for the projects to occur.

As both we and the National Research Council have reported over the last decade, the condition of the federal government's portfolio of public assets is deteriorating. In 1993, we reported that over half of the government's office buildings were over 40 years old and were designed and located to meet the needs of an earlier era.<sup>7</sup> Given the deteriorating condition of these structures, Congress and federal agencies need to continue to work together to find approaches that will encourage prudent management of federal buildings and facilities. When accompanied by good financial management and appropriate congressional oversight, public-private partnerships may be one approach to facilitate effective building and facility management at a time when it is increasingly needed.

This concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittees may have.

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<sup>7</sup> GAO/T-GGD-93-42.

Attachment

## Public-Private Partnership Projects We Reviewed

Projects and related agencies	Type	Brief description of projects
<b>Department of the Interior, National Park Service</b>		
1. Fort Mason Foundation, San Francisco, CA, 1976, extended in 1984.	Cooperative agreement to develop/operate (20 years)	These two urban parks were once military bases and contain many historic but deteriorating structures. In each instance, the Park Service contracted with a private sector partner to obtain funding to restore historic structures while keeping the park in public use. The partners rent the restored structures to nonprofit tenants.
2. Thoreau Center at the Presidio, San Francisco, CA, 1995	Lease/develop/operate (55 years)	
<b>Department of Veterans Affairs</b>		
3. VA Regional Office, Houston, TX, 1993.*	Design/build/operate (35 years)	VA used statutory authority to enter into revenue-generating leases for both projects. In Texas, a private developer constructed a VA regional office building on VA's medical campus. VA then leased land to the developer on the medical campus. The developer constructed buildings on the land and rents space in them to commercial businesses. VA must approve the buildings' tenants. In Indiana, the state leased underutilized land and facilities from VA to use as a psychiatric care facility. The leasing revenue that VA receives from both sites is to be used to fund veterans programs.
4. Cold Spring Medical Facility, Indianapolis, IN, 1995.*	Lease/develop/operate (35 years)	
<b>U.S. Postal Service</b>		
5. Grand Central Station Post Office, New York, NY, 1987.	Lease/develop/operate (99 years)	In both cities, the Postal Service owned an outdated, historic building in a highly desirable downtown location. It leased each property to private developers who built a commercial building adjacent to and/or on top of the historic structure. The Postal Service earns revenue from its lease with the developer, and the developer earns revenue from renting out commercial space in the new and historic buildings.
6. Rincon Center Post Office, San Francisco, CA, 1985.	Lease/develop/operate (65 years)	

\*Both of these projects fall under the authority granted under VA's Enhanced-Use Lease (EUL) legislation.



Mr. HORN. Now we will have 5 minutes per person alternating between parties, and we will stick to that very strictly. If you can get the question in before the red light goes on, the answer can take longer. But we will make a second round if we need to. So don't feel you are being rushed, but this gives everybody a chance to participate.

We will start with Mr. Franks' 5 minutes for questioning the witnesses.

Mr. FRANKS. Thank you, Mr. Chairman.

Mr. Gregory, how would you impress upon building managers the importance of not deferring scheduled maintenance.

Mr. GREGORY. Not deferring scheduled maintenance? The deferring of scheduled maintenance catches up with you. It ends up being a very large issue that soon becomes insurmountable. That is what we heard many times from the people that were testifying before our committee. They had a large backlog that seemed to be insurmountable. To encourage someone not to do that suggests it becomes too expensive to attack all at once. It grows to something that eventually starts eating away at the facility. There are no positive benefits to allow that to happen.

Mr. FRANKS. I think you're absolutely right. But I guess I'm looking for what kind of motivation can you inject into building managers to convince them of the needs that you just very confidently spoke to.

Mr. GREGORY. The issues that we talked about in our committee were some of the disincentives. These are the things that are common at the Federal facilities management level. As they look at some of their issues, they have little incentive to improve because of the way the budget dollars are determined.

Mr. FRANKS. I don't mean to interrupt again, but how can we provide them the incentive that you say is—

Mr. GREGORY. To give them incentives in the budget, give them more freedom in the budget to allow their budget dollars to be used more effectively. For an example, savings end up being a negative. Savings are subdivisions from the budget in the next year. They need more ability to handle those kinds of issues.

Mr. FRANKS. What kind of information do decisionmakers find compelling as it relates to increased building maintenance and repair budgets?

Mr. GREGORY. The facility is a if you look at facilities as a holistic approach, facilities in fact the real definition of facility management is integration of people, process, and place. The process is the business that happens there.

When you look at it from a holistic point, there are huge savings to a quality facility management program impacting the people. The people in that work environment are subjected by the work environment that they are in, either positively or negatively. The real savings in all of this are productivity savings by the work force and the health benefits that accrue by working in a healthy environment. These are very significant issues that can make the facility work better.

Those, to me, are the more compelling reasons that a senior level agency manager should be focused on facility and facility issues. It is not necessarily what is happening in the basement of the build-

ing, it is what more is happening in the overall facility that impacts productivity. The people cost on a life-cycle basis is almost 80 percent of the cost of running a building.

Mr. FRANKS. Thank you, Mr. Chairman.

Mr. HORN. I thank the chairman. I now call on Mr. Turner, the gentleman from Texas, and the ranking member on the Subcommittee on Government Management, Information, and Technology for 5 minutes of questioning.

Mr. TURNER. Thank you, Mr. Chairman.

I would like to ask each of you to comment on and share with us some examples where Federal agencies have utilized public-private partnerships successfully to give us some feel for, you know, where we are, seeing some progress, and perhaps even highlight the agencies that have done the best job in utilizing some of the tools that the Congress has given them, and then beyond that offer your suggestions for what new legislation we might need to give flexibility to agencies to be able to move forward with some of these new innovative approaches.

Mr. GREGORY. I would like to defer to Mr. Mihm. Our report dealt with the public-private partnerships as a tool, and we didn't get into the specifics. But I think you can address that.

Mr. MIHM. Yes, sir. I guess a good starting point would be to look at the success stories experienced by the six partnerships that we profiled. We profiled two from the National Park Service, two from Department of Veterans Affairs, and two from the Postal Service, including one from Veterans Affairs outside Houston, which I understand is near and dear to your heart, sir.

The focus was not to audit the results of these cases but to try and learn from their successes. We spoke with numerous agency officials and private-sector partners, to seek whether or not there were any negative feedback from the public on these projects. We found that, universally, there were positive responses.

And in some cases, this has been fairly well documented. In the cases, for example, of the Park Service partnerships, those out at the Presidio and Fort Mason, one of the major advantages that they got out of that was that the restoration and preservation of some historically very important property. The valuable property near Golden Gate Bridge could easily imagine could have gone a different route if it had been just exclusively developed for commercial purposes. So, the prevention of historic property was certainly one major advantage to these partnership arrangements.

In terms of the Postal Service, they currently recover about \$16.5 million a year from the two partnerships we received. This revenue is returned to their general operating fund.

In terms of the VA partnerships, the money is earmarked to serve veterans. So it goes into mission-related efforts that assist the veterans.

In all of the partnerships that we looked at, there seem to be these common elements that were keys to their success of these partnerships as well as some advantages from both the Federal and the partnership standpoint and the public and the private partners standpoint that these partnerships gave.

Now in terms of the second half of your question, dealing with some of the statutory authorities on this, there are a number of

things that clearly can be done; first, we have found in each of the partnerships there is a need to give incentives to the agencies to participate in the partnership.

The single most overriding incentive that we heard from all the asset managers that we talked to was to allow them to keep the proceeds from the partnership or at least a portion of those proceeds. In specific cases that can be earmarked for certain projects within the agency. But if they have to return all revenues earned to the Treasury, there is very little incentive for them to enter into these ventures.

I think, taking a look more broadly at the enabling legislation for the Veterans Affairs, which was the Enhanced Use Leases is what the partnership approach at Veterans Affairs is called, and which Congress laid out expectations for consultation with stakeholders and expectations for congressional review of the projects before they received final approval. I think that law and the incentives together provide good framework for where to go in terms of statutory changes.

Mr. TURNER. Give me a good example of let's take maybe the example of the VA. Tell us about the legal relationship between the government and the private partner and how that is established.

Mr. MIHM. My colleague Don Bumgardner did most of the work at the VA, and I am going to ask him to speak to that.

Mr. BUMGARDNER. In terms of the VA specifically, the key part of allowing them to enter into partnership arrangements was the 1991 enhanced-use leasing law. Without that type of enabling law, there is no incentive for any asset manager in any Federal agency to take on the risk of a public-private partnership.

The legal relationship is outlined pretty much in our report and, as Chris stated, the partnership has to have the approval of the Secretary, the Congress. A large part of the legal relationship revolves around the detailed business plans that layout both the public and private sector's responsibilities, and assure that the public's interests are protected. But, really, the overarching thing here is the law itself.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. GREGORY. I would like to add a couple of comments.

Mr. HORN. Please. Go ahead.

Mr. GREGORY. One of the things we talked about in our committee was the problem of confusing expense budgets with capital budgets. We talked about a separation of the two items that more clearly defines and helps to identify the cost of running a facility by removing the capital portion.

The other concern that we talked about is that partnerships are very good. We hear a lot today about business like. That is very good. The proceeds that go back into the agency budget, is a concern that maybe they support the program and still don't get to the facilities' people that need those dollars. That is a cautionary note.

Mr. HORN. Let me pursue what Mr. Frank started here, and what some of you have responded to. I would sort of just like in one place Mr. Mihm, if you could sum up how the executive branch of the Federal Government funds the long-term maintenance for particular buildings that it operates. And is this mostly administered by the General Services Administration? What does OMB do

when they're looking at budgets of a particular agency? Do they just leave it for a reprogramming purpose, or how does this thing work across the board in general?

Mr. MIHM. The short answer, sir, is poorly.

Mr. HORN. What's the process right now?

Mr. MIHM. The process is it comes in as part of the standard budget process through that agencies would submit through OMB. And then subsequent appropriations up here on the Hill. There is not a separate or necessarily focused attention to capital issues. In fact, the budget process has been seen pretty widely as creating a bias against these long-term spending issues. So, they have a tendency to fall out or not get the full weight because long-term benefits are not considered with short-term costs.

Mr. HORN. Is there a percentage that they use as a rule of thumb as to the amount of money that is available for deferred maintenance and all of that?

Mr. MIHM. If there is, I am not aware of it. I have heard numbers of 2 to 4 percent.

Mr. GREGORY. The earlier report that was done, the cost of ownership—

Mr. HORN. Do you want to put the microphone up to you.

Mr. GREGORY. The earlier report that was done prior to our report dealt with the cost of ownership and strongly recommended a 2 to 4 percent of replacement cost for buildings. All of the testimony or presentations that we heard in our committee, everyone was under 2 percent. No one was in the 2 to 4 percent range. They were not able to get there.

Mr. HORN. What would the private sector or the nonprofit sector, if its universities with vast buildings and so forth, put aside for maintenance?

Mr. GREGORY. That is a difficult question to answer, because of the the different ways that people look at facilities. The earlier report looked at the government facilities in terms of replacement cost in arriving at what is a nominal number. When trying to compare that with business or private industry, numbers were sometimes in excess of 4 percent. But, clearly, they were upwards of the 4 percent range.

Mr. HORN. Is there any role the executive branch has pursued to identify certain structures by some coding that where more maintenance would be required in terms of a long-term basis, because we know a lot of schlock buildings have been built in this city, among others, because for the last 30 years, you could go down and get an agency to say, yeah, we will move into your building. And they then go to the bank and get a mortgage and up goes this thing, which probably is depreciated over 20 years or so, and they might well stay there for 80 years.

Now what do we know about how you evaluate that if you are trying to put a budget together and you have got maybe 150 buildings or facilities of one sort or the other? I mean, is there any part of OMB's, and this I am asking both of you here, is does OMB have any formulas in this area? Are there any common sense rule of thumb.

Mr. GREGORY. We were very impressed at the committee level with the capital planning guide as part of the OMB. It talked about

a very good process. It was a draft at the time. I don't know that it's even been finalized.

Mr. MIHM. It is out.

Mr. GREGORY. It talked very specifically about planning, budgeting procurement, management, use, and ultimately disposal. It's the total life cycle consideration. As you connect mission and facilities, decisions start to be made easily as you better understand the agency's mission. Facilities programs that wrap around the business part enable a proper facility for the business and the mission.

Mr. HORN. Mr. Mihm, I have got 23 seconds to go here. Is there an identification on that OMB document you are saying now that is policy?

Mr. MIHM. There is a capital programming guide that is out from OMB. It was based on some of the work that we did looking at capital planning and best practices.

Mr. HORN. How thick is the guide?

Mr. MIHM. Not an inch.

Mr. HORN. About 100 pages, 200?

Mr. MIHM. Yes, 100 pages.

Mr. HORN. Without objection, we will put as much of it as we can in the record.

Mr. MIHM. We will get you that as well as our best practice guide.

Mr. HORN. Please. That would be very helpful. Well, my time is up. Let me now go to Mrs. Norton for 5 minutes of questioning.

Ms. NORTON. Thank you, Mr. Chairman.

I have a question about how to encourage essentially more public-private partnerships, how we get there from here. First let me ask you whether or not how important you think the statutory basis you describe as one of the key elements in all of these projects has been for the development of these projects?

Mr. MIHM. It was Ms. Norton, it was absolutely critical. None of the projects could proceed without a statutory basis. Now, some of this was project specific. In other cases, for example, the VA, and even more broadly with the Postal Service and the creation of the Postal Service, it was more general enabling legislation that allowed them to do it. But in all cases, they had to have a statutory basis in order to move forward with the partnership.

In terms more broadly, though, the question that you are asking about, the incentives, there are actually two areas that I think that we can really put some effort into and incentivize agencies to start thinking strategically.

First is continuing congressional oversight. In very pointed questions from the Congress to the agency that has jurisdiction over the property or buildings that you're interested in is, how are you thinking about this strategically? How does this fit or not fit in with what you are trying to achieve. Could it fit in with what you're trying to achieve?

I think the case study of the Park Service and the growing attention that the Park Service is giving to the issue of deferred maintenance, certainly indicate that they care very deeply about it. But I think Congress, and the persistent questioning that Park Service officials they have gotten from Congress in recent years, and I

know we have done quite a bit of work on that, has helped to bring that even closer to the front of their minds.

I think the second thing that needs to be done is to create incentive. This is something that Congress has already done by passing the Government Performance and Results Act requires agencies to, in their annual performance plans, think about all the various resources which includes their physical assets and how the assets are being used to achieve their goals.

So it requires some very reasonable questioning on the part of Congress. When we're assessing those plans on the behalf of Congress, we will ask how agencies are using their assets and help determine if they are using them strategically.

So those two areas, questions from Congress, and certainly our continuing work I think will help to elevate this in a general sense on the agenda for agencies.

Ms. NORTON. I note that there are some agencies that have authority to enter into partnerships to do innovative leasing arrangements. The DOD has it, VA has it, Park Service has it. Now I can only what I can charitably call on anomaly, however, in the Federal structure because there is one agency that has real estate responsibility, that is GSA, doesn't have it.

So here you have Defense, VA, Park Service, you have other missions who can enter into partnerships and proceed some of the way, even before one even gets to the statutory point, and may not need the statutory point in some instances, and the GSA, which has control of the most Federal land, most Federal buildings, is left there without any authority to do any of this. I think that's part of responsibility for the horrible waste we see down in Southeast Federal Centers.

They actually had a plan, had a very good plan, that there would have been a mall there that would have encouraged Federal employees to come there, and that hadn't done it, and that hasn't brought agencies there. I wonder if you think the GSA ought to have some of the authority that DOD, VA and Park Service already have?

Mr. MIHM. We haven't looked at that directly, so I am going to have to give you an, admittedly, a bit of a roundabout answer on this, and that is that I note there's a lot of effort that's going on in GSA now. And I think the statement for the record from OMB alluded to some of the legislative package that's being put together that would amend statutory requirements for this disposal of property and liberalize the authority to engage into partnerships.

I think one of the problems encountered government-wide, and certainly this is shared at GSA, is the culture which in the past has not viewed Federal property as an asset. They have viewed them basically as sunken costs. For example, we may view an office building simply as the building we work in but not something that can be used to further the mission of the organization.

And so this is why, when I mentioned one of the common elements, is that, each of the partnerships we looked at, the Federal agency found it necessary to establish a new organizational unit and bring in new expertise that was used to and comfortable in thinking strategically about how do we use this, how do we use as-

sets. And that's something that capacity is needed at GSA and elsewhere on that.

Ms. NORTON. Imagine GSA not even having the authority to help agencies use assets, which is part of their bottom-line responsibility in very many ways. So you'd think the GSA should have some authority of the kind DOD and VA and Park Service have now.

Mr. MIHM. Well, we haven't looked at it directly, but it's something that I know that they are working on. If Congress views it as making sense for others, it's certainly worthy to explore for GSA, the government's largest landlord.

Ms. NORTON. Thank you. Thank you, Mr. Chairman.

Mr. HORN. I thank you.

Let me just round out some of this testimony on the budget process and the training process for property managers, if any, and I'd be curious what both of your studies tell us in terms of the degree to which we have a program somewhere in the executive branch that we can upgrade the understanding and provide the skills, if property managers don't have those skills.

What did you find as you looked at this question? I mean, are there certain essential skills that are needed in a property manager to do the kind of things you are recommending be done and you have already seen done in some areas?

So, Mr. Mihm who'd like to jump at this?

Mr. GREGORY. What we experienced at the committee level is the facilities people know the job. They know what they need to do. They are good, well-intentioned people. They find their hands tied when they come up with suggestions for savings or implement programs that reduce their costs. It's not friendly to the budgeting process. That's the one issue.

Mr. HORN. Well, is that a matter of they're afraid to make the money or they feel they have to turn it back or what is it?

Mr. GREGORY. My understanding, sir, is they are driven by the budget process, that they have to turn it back, spend it or lose it, and that maybe gets into an issue of not spending it as well as you would like to. If you could pool money, if you had a revolving account where funds could be pooled and used for some of these non-routine maintenance things that happen, that would really allow them to manage their facilities better.

The overall thought was that the facilities maintenance backlog and facilities issues in general could be much better handled if there was relief in the budget area of how budgets and dollars are allocated.

Mr. HORN. What you are talking about? Can they carry it forward into a new fiscal year?

Mr. GREGORY. Right. That's one of the issues that we talked about.

Mr. HORN. And you would favor that, obviously, because it gives flexibility?

Mr. GREGORY. Some type of flexibility, but there is a caveat to that, in not being able to carry funds forward or use funds differently. But, more importantly, we identified the ability to have a cost system that better identifies the true cost of facility management, and that's one of the things that's very obscure in a number of presentations that we heard.

Mr. HORN. Mr. Mihm.

Mr. MIHM. We found in a couple of various Mr. Chairman, first, is that there was a need for real leadership. I know it's easy to say that, but in the projects that we reviewed, often they didn't get going or weren't even conceived until a new woman or man came in and said, look, you know, we are going to do things differently here. The old ways of doing business just aren't going to work anymore.

The Postal Service, for example, had the authority to enter into partnerships for a number of years until they got some new leadership, not at the very top but in terms of managing their assets. This manager began to think differently about how we can do that. So leadership is key.

Second, there is clearly the need for skills and basic business management, as opposed to traditional property management. This includes skills like how to negotiate with the private sector, draw up a business plan, and monitor the execution of the business plan.

I mentioned in my opening statement about the importance of how in the partnerships that we reviewed it wasn't the normal contracting procedures where the government figures out everything that it wants, sends out a request for proposals, and then accepts the lowest bid. This was something where the public and private sectors engage in a partnership. In this partnership there's an awful lot of give and take that goes on. These business plans are jointly developed, and that's a different set of skills than you routinely find in Federal asset management offices.

Mr. HORN. Well, on this point and the management of assets, to what could be done on, one, the strategic plan that we now require and, two, just in the general framework of the Government Performance and Results Act, and what is your understanding if, let's say the next round we got this pretty pitiful last round from most agencies, hardly any that were worth reading should that be worked in as part of it? Does it need a change in the law to assure that it's worked in or is it simply a matter of getting OMB to provide guidelines or Congress in some way to provide guidelines? What's your reaction on that?

Mr. MIHM. I think this is an area where we have the statutory basis. The law is pretty clear about what Congress was expecting in terms of the level of detail in the annual performance plans versus the strategic plans. And OMB has recently, with the capital programming guide and the revisions to A-11, which is the circular that governs the preparation of the President's budget, given agencies adequate guidance.

Nevertheless, when we reviewed both the fiscal year 1999 plans and the 2000 plans, the ones that came up here to Congress in February, one of the consistent failures that we saw in the plans was a lack of attention to how resources in general, whether it be information technology, budgeting, or assets, will be used to achieve the goals of the organization. This is just a consistent theme that we have seen.

Even when we knew it was separate budget documents, that an organization was going to be undertaking a large capital project, you wouldn't see it reflected in the annual performance plan.



At GAO one way that we're trying to contribute, is by consistently sending these messages back to the agencies, in both our audit reports and in the guidance that we issue. I know in the evaluations that congressional staff was looking at of the annual performance plans this year, that was one of the factors that they were looking at as well.

I think it's just a matter more and more of agencies kind of getting the message and that the fiscal pressures, the pressures that are coming from Congress, the pressures that are coming from OMB, I think we will see more progress over time on this.

Mr. HORN. Mr. Turner, do you have some more questions you'd like to ask? How about Ms. Norton? Chairman Franks, any more? Well, anything else you'd like to add?

We're going to round out panel one, and if there is something we have missed that you'd like to make an extra comment on, feel free.

Mr. GREGORY. Just in conclusion, that the title of our report, the "Stewardship of Federal Facilities," applies to all levels. There has to be a better understanding of what facilities means to the mission of the agency. We believe that if our report is embraced with the key items and serving as a guidance document will be a great first step.

Mr. HORN. Now, have you and the OMB sat down to discuss that report?

Ms. STANLEY. No, we haven't. I mean, OMB briefed the committee during their deliberations, but there hasn't been followup action.

Mr. HORN. Is there going to be followup with them?

Ms. STANLEY. There's nothing planned. We'd be very glad to do that.

Mr. HORN. Well, I was going to say, we ought to get a letter one way or the other out of us and suggesting they sit down and get the ideas in their bloodstream, as well as your bloodstream and ours and GAO's. So, well, we will work that out with staff and your own staff.

Well, we thank you both for very worthwhile studies and for giving us that in-depth and overall view that is always needed if something good is going to happen. So, thank you very much for the work, and thank you very much for coming, presenting this to us. We appreciate it.

The next panel is panel two, Mr. Randall Yim, the Deputy Under Secretary of Defense for Installations of the Department of Defense; Mr. Thomas Garthwaite, Deputy Under Secretary for Health of the Department of Veterans Affairs, and Mr. Garthwaite will be accompanied by Charles Yarbrough, the Chief Facilities Management Officer, Mr. D. Mark Catlett, the Deputy Under Secretary for Budget; and the next witness will be Mr. Denis Galvin, Deputy Director of National Parks Service; and Mr. Rudolph Umscheid, vice president, facilities, U.S. Postal Service.

OK. Gentlemen, I think you were in the room, and your testimony will automatically go in once we call on you, and we need to swear you in. So if you'd stand, raise your right hands, and those behind you that are perhaps going to testify, please get all of them up. We have seven possible witnesses.

[Witnesses affirmed.]

Mr. HORN. OK. The clerk will note that all seven witnesses took the oath and affirmed it.

We will now start with Mr. Randall Yim, Deputy Under Secretary of Defense for Installations.

You got the, I think, the approach earlier. Your statements were all fine. We have all read them; staff read them. We would now like a summary, if possible, in 5 minutes. If you need to go to 6 or 8, I'm not going to be offended, especially if you spent a lot of work on it. But, basically, I go by the rule that if they can't explain something in two pages, they don't understand it. So I think you can do that.

But go ahead, Mr. Yim.

**STATEMENTS OF RANDALL YIM, ACTING DEPUTY UNDER SECRETARY OF DEFENSE FOR INSTALLATIONS, DEPARTMENT OF DEFENSE; DENIS GALVIN, DEPUTY DIRECTOR, NATIONAL PARK SERVICE, DEPARTMENT OF THE INTERIOR; THOMAS GARTHWAITE, DEPUTY UNDER SECRETARY FOR HEALTH, DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY CHARLES YARBROUGH, CHIEF FACILITIES MANAGEMENT OFFICER, AND D. MARK CATLETT, DEPUTY UNDER SECRETARY FOR BUDGET; AND RUDOLPH UMSCHIED, VICE PRESIDENT, FACILITIES, U.S. POSTAL SERVICE**

Mr. YIM. Thank you, Chairman Horn and Chairman Franks and distinguished members of these two subcommittees. I am very pleased to be here today to discuss the Department of Defense initiatives for reshaping our installation infrastructure to support our changing military needs.

Secretary Cohen recently testified before the House Armed Services Committee about the important role that our installations play in our defense missions. Installations are platforms from which diverse strategies and missions are executed. They contain facilities and equipment for training and mobilizing our forces and their communities where our people live and work. Our installation programs must enhance our readiness, our mission accomplishment and maintain a high quality of life.

As most of you know, our military mission needs have changed. We must be vigilant to assure that our installation structure similarly changes to match these new mission requirements. To this end, we are embarking on a series of interrelated initiatives to reshape our installation infrastructure. These include privatization of housing and utilities, enhanced outleasing of underutilized real property and facilities, competitive sourcing of noninherently governmental functions, certain aspects of base operations, for example, demolition of excess facilities, and construction supporting improved standards and conditions for critical facilities such as our barracks and dormitories. And let me emphasize this, and, most importantly, authorization for two additional rounds for base closure and realignment.

We need legislative authority for additional rounds of BRAC now. Additional BRAC has proven to be the only fair, open and realistic way that the Department of Defense can align its base structure to support the military's changing mission requirements and support operations.

We are actively seeking from Congress two additional BRAC rounds in 2001 and 2005 to reduce what we estimate to be a 23 percent excess in our infrastructure requirements. We estimate, and the GAO agrees, that we may save approximately \$3.6 billion per year through additional BRAC, and we sorely need to use these funds on our enduring facilities to support high-priority programs such as readiness and modernization, quality of life, and all of the above.

BRAC, however, is only one initiative in a multipart strategy to reshape the DOD base structure. I spoke earlier about some. Let me highlight a few of these.

First, on quality of life and housing in particular. When we embark on our various initiatives to reshape our installation's infrastructure, we are not only interested in saving costs but we are dedicated to maintaining mission readiness and protection of the people that have served our country. So quality of life and housing is a very important program.

Last year, we established clear goals for improving the quality of our housing. We directed the services to program resources to eliminate the worst of the barrack conditions our single service members endure, that's permanent party, gang latrine barracks, no later than fiscal year 2008 and directed the services to continue to implement the one plus one building construction standard.

Based on established goals the service have also developed plans to eliminate our inventory of inadequate family housing by 2010.

Our housing privatization initiatives have progressed over the last years. We've devolved more execution authority to the services, while maintaining oversight within the Department. I am committed to making this program work and to move the projects to completion. They provide very sorely needed housing for our service members and our families.

Next, is leasing of our facilities. The Department is considering how to better use our fallow assets, both land and buildings. Our challenge is to determine if we can realize the unused economic value of a property at a given installation to fund facility maintenance and revitalization. We are recommending changes to our current leasing authority, Section 2667, Title 10, of the United States Code, that we believe could result in better economic use of our assets, additional revenues, as well as cost avoidance scenarios such as military construction.

This initiative could result in upwards of \$100-\$150 million of annual revenue by the end of fiscal year 2005, but this is very important. We are going to pursue this, but let me again emphasize that \$150 million compared to \$3.6 billion of savings from BRAC is no substitute for BRAC.

Before closing, let me address briefly two other areas.

The first is real property maintenance. For fiscal year 2000, we are requesting \$5.2 billion for real property maintenance, which is a 7 percent increase over last year's program. Keeping our facilities in operational and safe condition is an absolute high priority for the Department. As you know, lack of proper maintenance, as other witnesses have testified previously, and timely repairs leads to facilities' failure that will jeopardize our missions and our readiness. And we have also emphasized disposing or demolishing facilities

that we no longer can afford to maintain, that are excess to our needs. And, again, closing bases will free up additional real property and maintenance funds.

Second, let me voice my support for OMB's comments that our proposed legislative changes on leasing, coupled with those proposed by GSA and VA, will enhance the Federal assets across the Federal Government. This is clearly a move in the right direction.

As your subcommittees consider these changes, let me add, however, one note of caution. The Department of Defense currently has authority to implement enhanced outleasing that is in part broader than that being considered by GSA and OMB, and I would not want DOD to take a step backward as the rest of the Federal Government moves forward in this important area.

Chairman Horn, Chairman Franks, thank you and committee members, thank you for this opportunity to present the Department's programs, and I'll be pleased to answer any questions.

Mr. HORN. Thank you.

[The prepared statement of Mr. Yim follows:]

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BY THE COMMITTEE

**STATEMENT OF**

**RANDALL A. YIM  
DEPUTY UNDER SECRETARY OF DEFENSE  
(INSTALLATIONS)**

**BEFORE THE SUBCOMMITTEES ON  
GOVERNMENT MANAGEMENT, INFORMATION, AND  
TECHNOLOGY  
AND  
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION**

**U. S. HOUSE OF REPRESENTATIVES**

**APRIL 29, 1999**

### **Introduction**

Chairman Horn, Chairman Franks and distinguished members of your two Subcommittees, thank you for the opportunity to discuss the Department of Defense's programs for military installations and facilities.

Secretary Cohen recently testified before Congress, and he shared two major themes affecting military installations that I would like to repeat here. First, recognizing the important role installations play in the defense mission, the President added funds to the fiscal year 2000 program. Second, the Secretary identified securing authority for additional rounds of Base Realignment and Closure as his number one legislative priority. Both themes are crucial to our overall strategy for reshaping the installation infrastructure to match the needs of our forces in the 21<sup>st</sup> Century.

### **Sustaining the Foundation**

To keep America's defense posture strong and enhance quality of life for our military members and their families, our military installations and facilities must be sound. Installations are the platforms from which our forces successfully execute their diverse strategies and missions. Installations are not only where we maintain and deploy weapons systems, and train and mobilize forces for combat, they are also where our forces live, work and become members of local communities. The Department's programs for military construction, family housing and real property maintenance revitalize and strengthen that foundation. We must sustain and reshape that foundation so that military facilities and housing do not undermine readiness, compromise missions or reduce quality of life.

### **Reshaping the Installation Infrastructure**

The Department is committed to reshaping its base structure. At his budget briefing on the first of February, Secretary Cohen stated, "We are eliminating excess infrastructure, notably through the Base Realignment and Closure Process or BRAC, and our greatest need right now is for congressional approval of two additional rounds in the years 2001 and 2005, which would save us an additional \$3 billion a year." Implementing two more rounds of base realignments and closures will eliminate excess infrastructure and focus scarce defense dollars on modernization efforts, force readiness, quality of life for our soldiers and their families, and other interests vital to a strong national defense. Yet BRAC is much more than an excess property disposal exercise. It is an integral and inextricable part our readiness and modernization plans as we "right-size" and reshape our installations to match changing military mission requirements.

Furthermore, BRAC is only one initiative in a multi-part strategy to reshape and make more cost efficient the DoD installation structure. Other important initiatives involve privatization of housing and utilities; enhanced out-leasing of underutilized real property and facilities; competitive sourcing of non-inherently governmental functions; improved standards and conditions for critical facilities, such as barracks or dormitories; demolition of excess facilities; energy conservation; and restructuring. All these initiatives must be pursued. They complement each other, but no single initiative, or set of initiatives, can substitute for another.

Sustaining our installations' foundation and reshaping our infrastructure are critical to the revolutions in military affairs and business affairs. Today, I will describe the various ways we propose to accomplish both objectives.

### **Overview of the Military Base Structure**

The Department's real property plant replacement value is currently valued at about \$575 billion. Lack of proper maintenance and timely repair for necessary facilities leads to failures that jeopardize military missions and readiness, as well as quality of life. Expensive renovations often result. Proper maintenance and repair saves money in the long run by preventing deterioration that often results in wasted utilities and emergency fixes that are costly and disruptive. Further, maintenance and repair helps ensure an environment of enhanced worker safety. Keeping facilities operational enables them to contribute to high mission capability. A modern, well kept maintenance shop will reduce downtime for a tank or an airplane, and enable such weapon systems to continue operating at a fraction of the cost of buying additional weapons.

### **Military Construction Budget**

For fiscal year 2000, the Department is requesting a program of \$8.5 billion for military construction, funded with a combination of FY 2000 appropriations and FY 2001 advance appropriations. This includes funds for nearly 300 construction projects, for implementing prior rounds of base realignments and closures, for the NATO security investment program, for planning, design and minor construction, for operation and maintenance of family housing, and for the construction of new or improved family housing. The fiscal year 2000 military construction program is 11 percent more than the President's budget for fiscal year 1999. This increase reflects the effort of the Department and the President to address facility needs.

### **Real Property Maintenance Budget**

Maintenance and repair are vital to protecting our investment in facilities. For fiscal year 2000, we are requesting \$5.2 billion for real property maintenance, an increase over the appropriated fiscal year 1999 program of \$4.9 billion. Getting the most from each maintenance and repair dollar requires that the Department manage its facilities effectively and eliminate unneeded facilities, either by disposing or demolishing excess facilities or by closing unneeded bases.

### **Reshaping the Infrastructure**

The Department is pursuing various initiatives that will reshape its infrastructure. Eliminating unneeded installations through additional base realignments and closures is the foremost initiative. I would like to discuss our BRAC legislative proposal in some detail and then describe the other strategies that, together, will reduce the size of the Department's base structure, restructure it to match changing mission requirements, and enhance better cost efficient management of its facilities.

### **Additional BRAC Authority**

As the Secretary recently stated before the Illinois State House of Representatives, "vast sums of money that we waste on unneeded facilities are robbing our men and women in uniform of needed training, of modern weapons and of a better quality of life." That sums up two important points: We continue to maintain excess base capacity, and the savings from two future BRAC rounds can be better spent on other needs.

On April 2, 1998, the Secretary of Defense forwarded his report on Base Realignment and Closures to Congress. Central themes of this report are: 1) Even after four previous rounds of BRAC, we still have more infrastructure (approximately 23 percent) than needed; 2) Additional rounds of BRAC in 2001 and 2005 would yield savings of over \$20 billion in the years 2008-2015, the period covered by the Quadrennial Defense Review, and save approximately \$3 billion every year thereafter; 3) BRAC is critical to the success of our defense strategy; 4) BRAC can spur economic growth and development; and 5) Now is when we must plan for defense in the 21st century so timely BRAC authorization is essential.

The major points of that analysis are still very relevant today. We have far more infrastructure than we need or can afford. At the end of BRAC 95, both then-Secretary William Perry and the Chairman of the 1995 Base Realignment and Closure Commission commented that more closures were required. Our 36 percent force structure reduction has not been offset by an appropriate reduction in our base capacity, which has only been reduced 21 percent through the four current BRAC rounds. The estimated 23 percent excess base capacity exists right now, and that excess continues to draw resources away from our fighting forces. We really need to reverse that. But we need to do more than just eliminate excess base capacity. We need to "reshape" our entire infrastructure by properly aligning base structure to support the military's changing mission requirements and support operations. This requirement adds a different dimension to future BRAC authority, and it makes securing that authority even more essential.

We have determined that two future BRAC rounds in 2001 and 2005 are required to address the excess problem and reshape our infrastructure. We have also estimated that these two future rounds could generate approximately \$3 billion in annual recurring savings starting at the end of the implementation period. Those funds, together with the accumulated net savings up to that point, will go a long way toward supporting our future force structure.

We need legislative authority now. BRAC provides a fair and open process to closing bases. Alternative approaches to identify specific bases to close have not been successful, because they have not been based on a fair evaluation of all bases, audited by an independent Commission, or made transparent to the public.

We need to ensure that we have the resources available to meet our future needs. Absent BRAC authority, we would need to identify other potential sources of funding, whether they be further cuts in infrastructure (leading to a further deterioration in facility readiness and quality of life), further cuts in force structure, or reductions in training and force readiness. For these



reasons, the Chairman and Joint Chiefs of Staff believe that the BRAC process is critical to ensure the readiness of our forces and enable the Department to modernize its weapons.

Additional BRAC rounds also will permit the Department to align its base structure to support the military's changing mission requirements and support operations. Each of the major Defense Reform Initiative (DRI) thrusts - reorganization, civilian reductions, consolidations, outsourcing and BRAC - contribute to these goals. Some will generate savings or revenue. We expect outleasing of underutilized property to provide at least \$100 million per year compared to BRAC saving in excess of \$3 billion a year. None will achieve needed reforms alone; each contributes to the effectiveness of the others. Without BRAC, the effectiveness of other reforms will be diminished. Eliminating the uncertainty of future BRAC rounds as soon as possible will permit us to plan on how to use this tool as part of our overall DRI implementation strategy.

### **Overseas Realignments**

To date, the Secretary of Defense has announced his intention to return or reduce operations at 975 overseas sites. Since 1990, the result is a 58 percent reduction in our infrastructure overseas; a 63 percent reduction in Europe. The Department has established the European theater enduring force structure at about 100,000 personnel and a Pacific Theater enduring force structure of about 100,000. Hence, for the most part the Department has completed its planned realignments overseas.

### **Demolishing Excess Facilities**

Installation commanders have repeatedly reported that they often are forced to divert scarce resources to operate and maintain obsolete and excess structures. Such O&M costs come at the expense of more important requirements, and could be avoided by investing in the demolition and disposal of these excess facilities. In 1997, the Military Services surveyed their installations and identified over 80 million square feet of buildings, including more than 8,300 individual structures, which could be demolished in the near term.

In May 1998, Secretary Cohen directed the Military Services to fund elimination of the 80 million square feet by 2003. In fiscal year 1998, the Department eliminated about sixteen million square feet, exceeding the fiscal year 1998 goal of eleven million. In fiscal year 1999, the Department plans to eliminate an additional 14 million square feet. At the same time, DoD continues to identify additional excess facilities and structures with an eye on further savings.

### **Privatizing Utility Systems**

The Department spends nearly \$2.5 billion a year on energy for its installations, consuming over 70 percent of the energy used by all federal facilities. Nonetheless we are falling behind in caring for and replacing the utility delivery systems which we maintain. Our utility privatization is a new approach to solving this problem. By relying on the private sector to upgrade and maintain our utility infrastructure we expect to concentrate our management focus on energy use and cost and more efficiently address our total energy needs.

Congress has provided DoD authority to convey all Defense utility systems, including electric, water, wastewater and natural gas, as well as steam, hot and chilled water and telecommunications systems. Our current focus, as captured by a Defense Reform Initiative (DRI), is to privatize all electric, water, wastewater and natural gas systems. The objective is to get the Department out of the business of owning, managing and operating these systems. Competition for ownership of the utility infrastructure and leveraging of private sector capital is key to effectively resourcing the DoD energy requirement.

The Services have submitted plans to privatize their utility systems in these four categories by September 2003. Two major interim milestones will help monitor the success of this undertaking: 1) all analyses will be completed by September 30, 2000, and 2) all solicitations will be released not later than September 30, 2001. While this initiative is in its early stages, I believe it has great promise for expansion. For example, although not part the initial plans, I intend to also review our telecommunications systems for possible privatization to assist our installations in meeting modern information technology challenges.

Because of the diverse utility systems under consideration and the changing nature of the energy industry, we have already identified legislative changes necessary to meet our goals. We have requested authority to allow the use of military construction funds specifically appropriated for construction, repair or replacement of a utility system to upgrade the system prior to conveyance to private ownership. Improving outdated utility systems to the current standards of efficiency will facilitate the transfer to private ownership and save the Department money in the long run through lower operation and maintenance costs. We have also discovered that the current contractual limit of ten years is not long enough to allow favorable private sector financing for these projects. We have asked Congress for relief from that restriction.

#### **Privatizing Family Housing**

Our family housing privatization initiative is another example of innovative use of private sector capital and expertise in a more mature program. DoD maintains over 300,000 military family housing units of which approximately 200,000 require renovation or replacement. Completing this work via our traditional military construction approach would cost an estimated \$20 billion and take 30-40 years. In 1996 Congress enacted the Military Housing Privatization Initiative. This Initiative provides DoD with a variety of authorities to obtain private sector financing, expertise, and management to revitalize military housing. The new authorities were provided for a five-year test period and permit:

- (1) Guarantees, both for loans and rental occupancy
- (2) Conveyance or lease of existing property and facilities
- (3) Differential payments to supplement service members housing allowances (BAQ/VHA)
- (4) Investments, both limited partnerships and stock/bond ownership
- (5) Direct Loans

During first two years of the test period, we established the policies and procedures necessary to implement the initiative. We also worked aggressively to increase awareness and understanding of this program in both the commercial real estate and financial communities. We

reached out electronically via an Internet Home Page (<http://www.acq.osd.mil/iai/hrso>). Interest in the program has been high – the home page, for example, has been receiving over 200 hits per day.

In addition to laying the programmatic foundations for housing privatization, we actively tested the new tools in projects that raised many unanticipated issues as they moved through the process. The revolutionary nature of these projects required working through many legal issues related to the Federal Acquisition Regulations and Federal Property Regulations. Some completely new instruments, such as base closure guarantees, raised complicated questions regarding trigger mechanisms and budget implications of government liability.

After the first two years, we had learned much about how to use the new authorities, but we noted that normal military construction projects were being delayed pending decisions about privatization. In order to speed implementation through all available means; we devolved more execution authority to the Military Departments while maintaining basic oversight within OSD.

We have completed three privatization projects to date, totaling a little more than 1000 houses. We have another seven projects currently in solicitation and expect to advertise six more projects in the next two months. While there is still much work to do, our housing privatization authorities allow an exciting new way of doing business and are critical to providing quality housing over the long haul.

#### **Energy Management and Utility Procurement**

The Department continues to make great progress in reducing its energy consumption. In buildings and other facilities alone, energy use per square foot has come down over 19 percent since 1985. The DoD spends over \$2 billion on energy for its buildings and facilities each year. Conserving energy, therefore, saves substantial amounts of money as well as benefits the environment.

Our strategy to reduce energy consumption has two parts; one directed at what we own currently, the other at what we plan to build. The strategy for existing structures focuses on using public and private sector capital to finance energy-savings investments through shared savings contracts and area-wide agreements. The Department has multi-regional Energy Savings Performance Contracts (available for use by all Military Services and Defense Agencies), covering all fifty states and the District of Columbia, with a combined private sector investment capacity of \$3.2 billion. Additionally, where it makes sense, we continue to pursue demand-side management agreements with public utilities. In fiscal year 1997, these agreements resulted in the Department saving more than 817 billion BTUs and \$15 million.

The strategy for reducing energy consumption in new buildings calls on the Military Departments to take advantage of new design techniques and energy efficient materials to increase energy efficiency. We intend to use the principles of "sustainable design" in all construction designed after fiscal year 2000, where it has been determined to produce the lowest life-cycle costs. Sustainable design methods use the most energy efficient and environmentally sustainable products, optimize architectural design to incorporate local natural conditions (such as day-lighting and passive/active solar and solar-thermal applications) and provide for indoor workplace environmental quality. Demonstration projects undertaken by the Military Departments have

shown this approach to design produces 30 to 50 percent in energy savings with minimal investment.

Aside from our initiatives for existing or new facilities, a Defense Reform Initiative to stand up the Defense Energy Support Center is continuing to enhance our efforts to increase energy efficiency. The Center is becoming involved in all facets of our energy program and we believe it has significant potential for making an important contribution to the Department's conservation efforts.

### **Outlease Underutilized Property**

The Department continues to seek ways to meet its unfunded military construction and operations and maintenance requirements. One method under consideration concerns better use of fallow assets, both land and buildings. The challenge is to determine if DoD can realize the unused economic value of its real property to fund facility maintenance and revitalization. To that end, the Department performed a formal review of ways to enhance the efficiency and readiness of DoD facilities by actively marketing unused and underused, non-excess, real property to the private sector.

Last year, Congress asked the Department to report on efforts to identify non-excess property and surplus capacity for lease; the pros and cons of leasing such property and surplus capacity on military installations; an Air Force proposal to generate base-level efficiencies at Brooks Air Force Base, Texas, and a Navy proposal for commercial development of Ford Island, Hawaii. We have determined the Department's non-excess property and surplus capacity may have unrealized economic value. When there is a long term need to retain such property, long term leases could generate added value, either cash or in-kind consideration, to fund infrastructure-accounts.

The authority to lease non-excess property under Section 2667, title 10, United States Code (U.S.C.) has permitted the Department to put a modest amount of its non-excess, but otherwise not fully utilized property, to productive use by allowing non-federal entities (state and local governments and private sector firms) to use it. Moreover, the proceeds from those leases have been used to supplement chronically underfunded accounts for maintenance and repair services and for environmental restoration. However, Section 2667, title 10, U.S.C. has some limitations. If the limitations which impact the benefits to be derived from this authority were remedied, the Department could use its non-excess, but not fully used property more effectively and, could further reduce its installation support costs.

There are three key components to effective out-leasing of government property. First, lease terms should be structured to accommodate the business plan being proposed. Second, the consideration to be received, either cash or in kind services should cover a broad range of services to include construction and be available to be applied at locations other than the site of the lease. Third, this program will not be successful unless there is an incentive for facility managers to effect these leases and that means that the agency, or installation in this case, will be able to invest the proceeds to meet other capital and/or one-time needs. With the proper incentives such as flexibility in lease terms, and the flexibility to negotiate various types of consideration, DoD as well as the other federal agencies can take a huge step toward better utilization of existing real

property assets and create an entrepreneurial environment that results in better quality facilities for people to live and work.

Enhanced-use leasing, one element of a comprehensive restructuring initiative to reshape the Department's military base structure to meet the needs of the 21st century, is but one element of this strategy. The other significant elements of this strategy are competitive sourcing, privatization, and base closure.

To that end, the Department intends to establish and oversee special action teams at the military department level. These special action teams, or red teams, will provide targeted, aggressive assistance to field elements in support of the new enhanced-use leasing authority, and in fostering housing and utilities privatization, accelerating base reuse at closing military bases, and expanding competitive sourcing opportunities. The Department's unified approach to reducing base support costs, will not only leverage the inherent benefits of the recommended enhanced-use lease authority, but it will also take advantage of the potential synergies of combining competitive sourcing and privatization at installations best suited for those initiatives. We are pulling all of these initiatives into a Facilities Strategic Plan.

### **Facilities Strategic Planning**

The DoD invests billions of dollars each year to acquire, construct, operate, maintain, repair and dispose of its physical plant. These assets are essential to readiness and operations, because military forces cannot train or perform missions effectively in the absence of highly capable facilities. The Department lacked a consolidated long-range plan for its facilities, instead often relying on stand-alone programs oriented around specific appropriations, military services, facility types or locations.

To improve this situation, we created a Defense Facilities Strategic Plan framework as well as a process for reviewing and renewing the plan regularly. We used an inter-Departmental working group to develop the framework and are using the DoD Installations Policy Board for review and oversight. Our goal is to establish a process where plans, programs, and initiatives are integrated with a DoD vision, mission, goals, tools, resources and metrics. We merged existing initiatives with the framework, and are beginning the process of developing new initiatives within the context of the plan. We intend to correlate the plan with Defense Planning Guidance and update it every other year.

The Department is making good progress on its ongoing initiatives under the strategic plan. Among these initiatives, some discussed earlier, are plans to upgrade barracks, privatize family housing, and accelerate demolition and disposal of obsolete buildings. Other efforts, such as privatizing utility systems, more competitive sourcing for facility requirements and developing a facility aging model, are well underway with positive results starting to show. In the near future, we will undertake several new initiatives within the context of the strategic plan. These new initiatives include increasing joint use of facilities, improving real property reporting systems, and an assessment of the various facility condition assessment systems in place within the Department.

The result of our emphasis on such initiatives will be significantly enhanced management of and planning for the Department's investment in its facilities. Our continuing efforts to develop

and effect a Facilities Strategic Plan will help us determine the right size of the defense plant account, the right quality of our facilities, the right information and the right resources to satisfy requirements.

**Conclusion**

This concludes my prepared testimony. In closing, Mr. Chairmen, I thank you for giving me this opportunity to describe the comprehensive and integrated Department of Defense's installations' and facilities' programs, and to make the case for additional BRAC authorization. I would be honored to answer your questions.

Mr. HORN. The next witness is Dr. Thomas Garthwaite, the Deputy Under Secretary for Health, Department of Veterans Affairs.

Dr. GARTHWAITE. Mr. Chairman and members of the subcommittees, the Department of Veterans Affairs is the second largest of the 14 cabinet departments and operates nationwide programs of health care, assistance services and cemeteries for veterans.

The Department's capital portfolio currently consists of over 22,000 acres of land, 5,300 buildings, to the total of 140 million square feet of owned and leased space. This inventory is spread over nearly 1,200 locations in all 50 States, the District of Columbia, Puerto Rico, Guam, and Samoa. A large percentage of the Department's capital assets are devoted to providing health care to the Nation's veterans. In this portfolio we have 1,700 historic buildings which require special consideration and treatment.

A significant discordance between our actual capital assets and our capital asset needs has developed in large part due to the ongoing massive transformation of VA health care that began in 1995. As part of this transformation, we have closed more than 52 percent of our hospital beds. We've integrated the management and services of 48 facilities into 23 systems of care and have opened or are in the process of opening 272 new community-based outpatient clinics, some built, many leased.

At least three factors contribute to the discordance between our current asset array and our needs. First, the rapid changes in the delivery of health care which require radically different physical structures and significantly less space. The rate of change in medical practice is far faster than the capital asset cycle.

Second, the location of facilities is often outside the veteran population centers which leads to inconvenience for access for many veterans.

And third, the age of many of our facilities requires constant investment to maintain function and is associated with intrinsic barriers to efficiency.

To align our physical infrastructure to more effectively support our current needs, we are in the process of implementing a new strategic planning process beginning at the local level. Each of our 22 geographic service areas will establish a government community committee, including membership representing veterans, the State, our academic and business affiliates and our local leaders. The committee will develop plans aimed at realigning any imbalance between VA capital assets and veteran needs.

The process will emphasize the use of data as the basis of recommendations and will encourage the suggestion of alternative ways to deliver service, enhance access and improve the quality of care.

Following such strategic review, any proposal for capital investments are documented in a capital asset plan for which we currently follow the principles of the OMB Capital Programming Guide. Proposed investments are reviewed by the VA Capital Investment Board in Washington to assess their linkage to strategic planning budget and performance goals. The board then provides an analysis to the Secretary about each proposal's viability for inclusion in our VA capital plan and our request of the VA budget to OMB.

While the Department uses all of the traditional legal authorities available to Federal agencies for managing and disposing of its assets, two unique efforts may be of interest to the committees. The first has already been described in some detail by the first panel, and that is our enhanced use leasing program. It is unique among Federal agencies and has recently been recognized by the GAO as an example of a key element in an efficient and effective property management program.

The Department has used this authority to consolidate operations and dispose of unneeded facilities, to co-locate Veterans Administration office space with VA medical center space, to obtain child care services for employees, to expand parking facilities for veterans and for employees, and to redirect operational funds from managing golf courses into direct medical care. In doing so, these leases have achieved significant cost savings, have enhanced employee recruitment, have added substantial private investment to the Department's capital assets, have provided new long-term sources of revenue and have created jobs and tax revenues for local economies. My full statement provides examples of our use of this authority.

Finally, the Department is also proposing a pilot program to encourage and streamline the conversion of the value in the properties we no longer need into service for veterans. This proposal would allow the VA to dispose of unneeded properties, including land structures or equipment associated with those properties by sale, transfer or exchange, and to reinvest the bulk of the proceeds to support its health care program. The pilot would be restricted to 30 dispositions over its 5-year life.

Mr. Chairman, the turmoil on health care you read about daily is all about a quest to define and provide value. Similarly, our capital asset program seeks value for veterans and for taxpayers. We believe we are making progress, but would welcome creative new options and incentives. We'd be pleased to answer any questions you and the committee may have.

Mr. HORN. Thank you very much for being so punctual. You have 2 seconds left.

[The prepared statement of Dr. Garthwaite follows:]



**Statement of  
Thomas L. Garthwaite, M.D.  
Deputy Under Secretary for Health  
Department of Veterans Affairs  
Before the  
Committee on Government Reform, Subcommittee on  
Government Management, Information, and Technology  
And the  
Committee on Transportation and Infrastructure, Subcommittee  
on Economic Development, Public Buildings, Hazardous  
Materials and Pipeline Transportation  
Hearing on  
Federal Real Property Management  
U. S. House of Representatives**

April 29, 1999

Mr. Chairmen and members of the subcommittees, I am pleased to appear before you this morning to provide you with an overview of the Department of Veterans Affairs' real property management program, with a primary emphasis on our recent innovations in planning, budgeting and management of our diverse assets.

**Background**

The Department of Veterans Affairs (VA) is the second largest of the fourteen Cabinet departments and operates nationwide programs of health care, assistance services and national cemeteries. The Department's capital portfolio

currently consists of over 22,000 acres of land and 5,300 buildings (almost 1,700 of which are historic buildings), and 140 million square feet of owned or leased space. This inventory is spread over nearly 1200 locations, in all 50 states, the District of Columbia, Puerto Rico, Guam, and Samoa. A large percentage of the Department's capital assets are devoted to providing healthcare to the nation's veterans.

#### **VA Healthcare Operational Transformation**

Before discussing our efforts to plan for and manage capital assets, it is important to recognize how our capital asset needs have been impacted by the unprecedented transformation of VA health care that has occurred during the past four years. As you know, powerful forces are rapidly transforming American health care. Prominent among these forces of change are: market-based restructuring of healthcare which includes the rise of managed care; the explosive growth of knowledge with technological advances that are dramatically expanding the ability to treat illness and injury; unprecedented developments in information and data management; and the changing demographics and aging of America.

Since 1995, we have made significant progress in transitioning from a disease-oriented, hospital based, professional discipline focused health care system to a system that is patient centered, prevention oriented, community based and which has universal primary care at its foundation.

To accommodate this transformation, VHA established 22 Veterans Integrated Service Networks (VISNs) at the beginning of FY 1996. Each VISN forms a fully integrated health care system that provides a continuum of health care services to veterans who reside in a geographical area rather than a collection of individual facilities providing episodic services to veterans who come to those facilities.

VA's transformation is still in process but results have already been achieved. The following accomplishments illustrate this change:

- *More than 52% of all hospital care beds were closed between FY 1994 and FY 1998.*
- *VHA's bed days of care per 1,000 patients has declined by more than 62% nationally – from 3,530 to 1,333 from October 1995 through September 1998.*
- *Inpatient admissions have declined by 31.7% since FY 1994.*
- *Ambulatory care visits have increased by almost 10 million per year – a 35.4% increase between FY 1994 and the end of FY 1998.*
- *Management and operation of 48 hospitals and/or hospitals and clinic systems have been, or are in the process of being merged into 23 locally integrated health care systems since September 1995.*
- *272 new community based outpatient clinics (CBOCs) have been sited, or are in the process of being sited since 1995.*
- *Ambulatory surgeries increased from 35% of all surgeries performed in 1995 to about 92% in FY 1998.*

Many of our facilities were originally acquired from the military, and are not sited near veteran population centers. Likewise our physical infrastructure was developed at a time when the dominant method of providing healthcare required inpatient admissions and relatively long lengths of stay. Further, the standards to which these facilities were designed and built decades ago are, in many cases, no longer considered appropriate or acceptable for modern medical care. For example, in some locations, basic life safety standards including seismic safety criteria have mandated changes in physical plants, up to and including the replacement of complete hospital facilities. These changes and other continuing rapid changes in health care technology have significantly impacted our physical infrastructure needs.

**Capital Assets Realignment for Enhanced Services**

To align our physical infrastructure to more effectively support the current healthcare needs of the Department, we are in the process of implementing an improved strategic planning process. To provide oversight and direction for this

planning, each VISN will establish a Capital Assets Realignment for Enhanced Services (CARES) Steering Committee including membership representing veterans, the state, our affiliates, and our various missions. The CARES committee will develop semi-annual plans aimed at realigning any imbalance between VA capital assets and veterans needs. CARES plans will itemize historical, current and projected utilization and demand for healthcare services, describe current assets, and critically review the match of assets to the VISN's current and projected future demands. The plans will further consider alternatives to current service delivery modes, and will make recommendations as to proposed reuse or reconfiguration of capital assets to more efficiently provide services to veterans.

#### **Capital Asset Planning**

Following strategic review, any proposals for capital investments must be documented in a Capital Asset Plan, following the principles in the OMB "Capital Programming Guide." Proposed investments must answer three questions: 1) Does the proposal support core missions of the Department that must be performed by the government; 2) Is there no other government or private sector source that can do it better or cheaper; and 3) Have current work processes already been optimized?

VISN capital asset plans contain two sections. One describes the linkage of the capital acquisition to VA/VHA/VISN mission, goals, management strategies and performance goals. The second is a Baseline Assessment that describes the extent that existing capital assets are helping the network to achieve goals, management strategies, operating strategies, and performance goals. The difference between current and projected performance, which cannot be met with existing assets, is the performance gap. In this section of the plan, VISNs explain options considered for closing the perceived gap, including non-capital options such as sharing and contracting. If asset acquisition is thought to be the best option, the network plan identifies the asset that is uniquely suited

for closing existing performance gaps. In addition, in this section, the network plan explains why the capital asset investment is the best alternative of all the available options, including non-capital alternatives.

The result of these efforts is a VISN specific Capital Asset Plan. Network Capital Asset Plans are not submitted to HQ in total. Only those proposals exceeding the established threshold (\$4.0 million for construction) are provided to VA Headquarters as part of the Network Strategic Plan submission. Analyses for capital asset expenditures not exceeding the threshold are conducted at the VISN level to facilitate their decision making. The justification includes the basis for selecting the project; a cost-effectiveness analysis; an analysis of alternative options and an analysis of the full life-cycle costs.

From the 22 Network strategic plans, a major construction project inventory is compiled. Projects are then reviewed by the VA Capital Investment Board (VACIB) for budget consideration.

The VACIB was created to foster a "One VA" approach to the use of capital funds (including construction, information technology, and equipment) and to ensure all major capital investment proposals are based upon sound economic principles and are fully linked to strategic planning, budget, and performance goals. The VACIB includes senior management officials from across the Department. The VACIB reviews proposals that have high risk, national visibility or exceed dollar thresholds (\$4.0 million for construction). The Board provides an analysis to the Secretary about each proposal's viability for inclusion in the VA Capital Plan and VA budget request to OMB.

The major criteria used to select capital construction investments are prioritized and weighted by the Capital Investment Board members. The criteria for FY 2000 included:

- One-VA Customer Service*
- Return on Taxpayer Investment*
- High Performing Workforce*
- Risk Analysis*

#### *Alternatives Analysis*

Using the criteria approved by the Board, all investments including major construction projects are scored and prioritized. The VACIB recommends a list of investments to the VA Resources Board for approval. Approved major projects are submitted to OMB as part of VA's request for budget and authorization consideration.

#### **Asset Management**

To manage its capital holdings, the Department uses all of the traditional legal authorities available to federal agencies for managing and disposing of its assets. However, in many instances, these traditional practices do not adequately address problems encountered by our medical centers in trying to maximize the efficiency of their facilities requirements. For instance, a parcel of land or a building, landlocked in a VA complex, is not likely to be sold or transferred for obvious reasons, even though the VA activity may not have a direct need to occupy the property, nor have the financial resources to fully use it. Because of these limitations combined with increasing budgetary constraints, asset management and revenue generation programs have become increasingly important in the Department's activities. These efforts to achieve cost reductions and alternative funding sources directly benefit VA's healthcare program. Three efforts in this regard are outleasing of underutilized property, enhanced-use leasing authority, and the proposed pilot authority for disposal.

#### **Outleasing**

38 U.S.C. Section 8122(a)(1) provides authority to the Secretary to lease, for a term not to exceed three years, lands or buildings, or parts or parcels thereof, belonging to the United States and under his control. Proceeds from such leases (except for expenses for maintenance, operation, and repair of buildings leased for living quarters) must currently be deposited into the US Treasury as miscellaneous receipts. From a VA perspective, there is currently

little incentive to local VA activities to consider such leasing alternatives as the VA facility involved would be assuming financial responsibility for administering the lease but is unable to defray expenses or retain the proceeds.

#### Enhanced-Use Leasing

The Department's Enhanced-Use leasing program, which is unique among Federal agencies, is an integral part of the Department's management of its assets. This program has recently been recognized in a General Accounting Office report (GAO report GAO/GGD-99-23, Public-Private Partnerships: Key Elements of Federal and Building Partnerships) as an example of a key element in an efficient and effective federal property management program.

The Department has used this authority to consolidate operations and dispose of unneeded facilities, collocate Veterans Benefits Administration (VBA) office space onto VA Medical Center grounds, obtain child care services, expand parking facilities for veterans and employees, and re-direct operational funds from managing golf courses into direct medical care. In doing so, these leases have achieved significant cost savings, have enhanced employee recruitment, added substantial private investment to the Department's capital assets, provided new long-term sources of revenues, and created jobs and tax revenues for the local economies. An overview of VA's first Enhanced-Use project at Houston, Texas, which was described in the GAO report, and summaries of two recently awarded projects at Portland, Oregon, and Atlanta, Georgia, illustrate the utility and versatility of this authority.

VA's first Enhanced-Use project provided for the lease of 20 acres on the Houston VA Medical Center campus to a local developer, for the construction of a new 140,000 SF Houston Veterans Benefits Administration Regional Office (VARO). Using its lease-purchase authority at the time, VA purchased the VARO for \$11.5 million – a 33% savings from the amount appropriated by Congress for traditional acquisition. VA granted the developer development rights on the balance of the leased site. In return, the developer agreed to

provide, at a discounted rate, long term operations and maintenance services for the building, as well as other benefits to VA including financial participation in all proceeds resulting from private development of the leased site. These portions of the project generate an annual income to VA. This project received Vice-President Gore's HAMMER Award.

The VA Medical Center in Portland entered into an Enhanced-Use lease with a local authority for the development of a "Single Room Occupancy" Facility on available property at its Vancouver Division. In return for the lease, the VAMC will have access to one-half of the 120-unit facility for its use in connection with its own homeless programs at no cost. Occupancy is scheduled for this summer. The present value of the cost savings to the VAMC is estimated at \$8 million.

The Department used the Enhanced-Use leasing authority as a means to co-locate its Veterans Benefits Office with the VA's Atlanta Medical Center. Using this authority, the Department entered into innovative arrangements with a local development authority for the necessary financing and with a developer for the construction and operation of the development. Construction is now underway for the office building and the associated parking facility. When completed, the average annual VA rent over the term of the lease for office space, parking, furnishings, and associated data and telecommunication equipment, will be approximately \$11.00 per square foot as compared to the market rate of \$20.00 to \$26.00 per square foot for comparable office space alone. Finally, the Department will also obtain revenues from non-VA users in the development.

Other Enhanced-Use initiatives currently underway include medical and research facilities, additional VBA regional office collocations, assisted and specialty housing, child development centers, energy plants and parking garages.

While the program has achieved some level of success, it has limitations; namely market demand, compatibility issues and VA mission requirements. By



understanding its strengths and constraints the Department is moving toward further application of this authority as an important tool in its capital asset program.

Pilot Asset Disposal Program

The Department is proposing a pilot program to significantly improve its management of capital resources by encouraging and streamlining the process of converting properties we no longer need into active assets. This proposal would allow the VA to dispose of these properties (including land, structures or any equipment associated with the property) by sale, transfer, or exchange, and to reinvest the bulk of the proceeds to support its healthcare program. The pilot would be restricted to thirty dispositions over its 5-year life.

Disposal is currently a cumbersome and lengthy process with limited benefits to VA. For example, to dispose of property with an estimated value over \$50,000, the asset must first be reported to Congress in an annual budget submittal. Then VA must transfer the surplus property to GSA for disposal. Before GSA can attempt to sell the asset to the private sector, they must offer it to other federal agencies, then to State, local and qualifying non-profit organizations. Disposals must also comply with the Stewart B. McKinney Homeless Assistance Act that requires that excess property be offered to homeless organizations at no cost. GSA is also authorized to offer discounts of up to 100% to public and non-profit institutions. Any proceeds realized by VA after covering GSA's expenses of the disposal are deposited into the Nursing Home Revolving Fund. These monies can then only be used to build nursing homes -- currently not a VA priority need.

We propose to establish a Capital Asset Fund. All net proceeds of disposals will be reinvested into the system's capital requirements. Allowable deductions would include all costs of disposing of the asset such as site preparation, demolition, administrative expenses etc. This fund will have a cap

of \$50 million, with excess proceeds to be transferred to the minor construction program.

The pilot would raise the threshold for reporting disposals in an annual budget document from \$50,000 to an amount equal to the cost of a major medical facility project (currently \$4 million). For disposals under this threshold a notice of intent would be provided to the local community and the congressional committees.

We also propose an innovative approach to supporting the homeless by requiring that 10% of the proceeds from these disposals, after expenses, be transferred to the Department of Housing and Urban Development to be directed to local homeless assistance groups, which would include support for veterans. Homeless assistance groups would continue to benefit from the disposal of VA surplus property, consistent with the spirit and intent of the McKinney Act.

Because of the resources that will directly benefit VA programs, the Department will move quickly to establish procedures to implement this authority, as an additional tool in our overall Asset Management program.

#### **Conclusion**

Mr. Chairman, our objective is to ensure that VA capital assets are utilized in ways that bring the greatest value to the Department at the lowest cost. We believe the areas that I have discussed here this morning illustrate the Department's efforts to continue to move forward in this area. This concludes my opening statement and I would be pleased to answer any questions you or the members of the committee may have.

Mr. HORN. Mr. Denis Galvin, the Deputy Director of National Park Service, Department of the Interior.

Mr. GALVIN. Thank you, Mr. Chairman. Since its establishment in 1916, the National Park System has grown to 80 million acres of land and 378 national parks. There are 16,000 structures in those parks. Some have none, and some have thousands. We have building capacity frequently that exceeds the requirement for park operations. These are frequently historic buildings. We have an obligation to try and preserve them.

We have a certain amount of authority to enter into agreements with private or other government entities to help pay for rehabilitation, maintenance and operation of structures through leasing, cooperative agreements and partnerships. The GAO report previously cited mentions our experience in San Francisco at Fort Mason and the Presidio.

There, a good real estate market has allowed us to enter into some successful partnerships with nonprofits and for-profits to both rehabilitate and operate rather extensive structures that result in a savings to the government. Fort Mason was part of the Presidio turned over to the Park Service immediately upon the creation of Golden Gate. That was in the early 1970's. In an effort to reduce the rather significant operating costs associated with the major pier structures on San Francisco Harbor, the then superintendent made approaches to nonprofit groups to provide cultural educational and recreational activities to the park. Ultimately, that became the Fort Mason Foundation which represents a number of nonprofit groups that lease space at the site.

Since 1972, the National Park Service has spent about \$3.5 million dollars on the rehabilitation while the Fort Mason Foundation has spent \$13 million. Operating expenses for the Park Service are about \$250,000 a year; for the foundation, about \$2.3 million. A more recent example cited in the GAO report was the leasing of the old Letterman Hospital, again at the Presidio within Golden Gate National Recreation Area. That complex was transferred to us in 1994.

Legislation enacted in 1993 by the Congress, specifically aimed at the Presidio, allowed us to lease the Letterman Complex. Through a competitive procedure, we selected the Thoreau Center Partners, a for-profit real estate partnership, to lease and rehabilitate the building. That has been successful. The partnership generates \$170,000 thousand annually in rents and fees, and is able to pay off a commercial loan through subtenant rents.

There are other examples throughout the system where we have avoided costs, at least, in terms of managing properties within the national park system. The Boston National Historical Park was created to allow cooperative agreements with a series of owners of undeniably nationally significant historic buildings. Faneuil Hall, which is owned by the city of Boston, still maintains a commercial operation on the first floor, but through a cooperative agreement we interpret it to the public.

Similarly, a series of missions at San Antonio remain part of the Archdiocese of San Antonio, but through agreements with the archdiocese we spend money on preservation techniques there and also interpret them to the public.

Some of our attempts to do this have not been successful. You mentioned the south side of Ellis Island where we've three times tried to find private interests to occupy and rehabilitate those buildings. Thus far we have been unsuccessful. We are trying a fourth time.

Also, at Sandy Hook, which is part of Gateway National Recreation Area, we have tried a number of times to find tenants for a series of historic buildings there. We currently have a contract for a new market analysis and seem to be generating considerable interest in a mixed-use approach to that complex.

We have a number of authorities that allow us to do this, and I just jotted them down here. Some of them are specific to parks and some of them are general. We have a general authority to accept donations. We have general authority to enter into cooperative agreements and some specific ones. Concessions contracts are important. In many instances, the concessions that provide public services in parks, restaurants, lodging, are in government buildings but under contract to the government.

We have authority to lease historic buildings under the National Historic Preservation Act. We have some general leasing authority, just passed by Congress, that liberalizes our ability to lease nonhistoric buildings, and then as I mentioned there are specific provisions in individual park legislation.

Another interaction we have with Federal property laws is the Federal Lands to Parks program which allows localities to accept Federal surplus property to turn into parks and open space in perpetuity. Since 1949 the National Park Service has deeded more than 1,300 properties totaling approximately 144,000 acres to State and local governments.

That concludes my summary, Mr. Chairman.

[The prepared statement of Mr. Galvin follows:]

**STATEMENT OF DENIS P. GALVIN, DEPUTY DIRECTOR, NATIONAL PARK SERVICE, DEPARTMENT OF THE INTERIOR, BEFORE THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY OF THE HOUSE COMMITTEE ON GOVERNMENT REFORM AND THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION OF THE HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE CONCERNING FEDERAL REAL PROPERTY MANAGEMENT**

**APRIL 29, 1999**

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Mr. Chairmen, thank you for your invitation to appear at this joint subcommittee hearing to discuss experiences the National Park Service has had with innovative approaches to managing property. We are pleased to have the opportunity to share this information with the Committee on Government Reform and the Committee on Transportation and Infrastructure.

Since its establishment in 1916, the National Park Service has gradually become responsible for a considerable amount of real property. Today, the property under our stewardship includes more than 80 million acres of land at 378 national parks, battlefields, monuments, recreation areas, scenic trails, and other units. In some circumstances we have building capacity that exceeds the requirements for park operations. Since these are frequently historic buildings, we have an obligation to try and preserve them.

We do have, however, a certain amount of authority to enter into agreements with private or other governmental entities to help pay for rehabilitation, maintenance, and operation of structures through leasing, cooperative agreements, and partnerships. These

arrangements have been most successful with National Park Service holdings that are located in highly desirable real-estate markets.

In fact, the two National Park Service partnership projects that are featured in the General Accounting Office (GAO) report entitled Public Private Partnerships: Key Elements of Federal Building and Facility Partnerships are both located in the prime real estate market of San Francisco. At Fort Mason and the Presidio, we have been able to capitalize on the city's tight market for leased space to rehabilitate our deteriorating historic buildings at relatively little cost to the Federal government. We have also had some success with smaller-scale partnering with non-Federal entities, usually through the use of cooperative agreements, to achieve mutual development goals at other units of the park system.

Fort Mason is one of a number of U.S. Army installations that were transferred to the Golden Gate National Recreation Area when that unit was created in the early 1970s. The public-private partnership through which the buildings of the lower Fort Mason area were rehabilitated and are managed was established in the mid-1970s. The partnership was formed to restore Fort Mason's decaying buildings and to make the spaces available to nonprofit groups that would provide cultural, educational, and recreational activities to the public.

Through the partnership that the National Park Service entered into with the Fort Mason Foundation, which represents the nonprofit groups that lease space at the site, the historic

buildings have been rehabilitated and are used for a range of activities for the public sponsored by a variety of social, cultural, and arts organizations. The National Park Service has spent about \$3.5 million on the rehabilitation; the Fort Mason Foundation, about \$13 million. Operating expenses for the Park Service are about \$250,000 a year; for the Foundation, about \$2.3 million. The Park Service is meeting its objectives of preserving the historic character of the lower Fort Mason area at minimal cost to the Federal government while providing educational, cultural, and recreational activities for the public, and the Fort Mason Foundation is meeting its goal of providing low-cost rental space to non-profit groups that want to sponsor activities in a prime San Francisco location.

The Presidio was transferred to Golden Gate National Recreation Area in 1994, following the decision to close the site as an Army base in 1989. As was the case with Fort Mason, the National Park Service was concerned that we would not have the funds or staff necessary to undertake the necessary rehabilitation, operation, and maintenance of the site. Legislation enacted in 1993 provided the authority to lease the Letterman Complex, a former hospital and research center, and in 1994, the National Park Service selected the Thoreau Center Partners, a for-profit real estate partnership, to lease and rehabilitate the buildings and then sublease the improved office space.

Through this partnership, the National Park Service has been able to shift the cost of rehabilitating and maintaining these key Presidio properties to the private sector and to

generate more than \$170,000 annually in rent and fees, which are used for other needs within the Golden Gate National Recreation Area. The Thoreau Center Partners have also benefited from the arrangement, as subtenant rents have generated sufficient income for the partnership to operate and maintain the complex, pay rent to the Federal government, and repay debt. An important factor that made this an economically viable project is the latitude that the partners had in determining the use of subtenants, without which banks would have been reluctant to invest in the project.

Partnering with non-Federal entities has been used to reduce the cost of maintaining and operating property at other sites as well. Faneuil Hall, part of Boston National Historical Park, is operated through a cooperative agreement between the National Park Service, which provides historical interpretation for site, and the City of Boston, which owns the building and receives income from retail businesses that lease space there. San Antonio Missions National Historical Park operates under a cooperative agreement with the Archdiocese of San Antonio, which owns the mission churches themselves. The National Park Service owns property adjacent to the missions and provides technical assistance to the Archdiocese to ensure that the buildings are maintained in a manner compatible with the park.

However, all of our attempts to find a private partner for property management have not been successful. At Sandy Hook, a former Army facility in New Jersey that is part of Gateway National Recreation Area, the Park Service has been trying without success for



many years to find a private-sector partner to rehabilitate the site's historic buildings. However, the Park Service has conducted a new market analysis and will shortly be issuing a request for proposals to lease these buildings for mixed uses.

Similarly, the Park Service would like to enter into a partnership to rehabilitate decaying historic buildings on the south side of Ellis Island, which is part of the Statue of Liberty National Monument, but because the properties are very expensive to rehabilitate and the site is isolated from the more desirable parts of the New York and New Jersey real-estate markets, thus far we have not been able to attract the type of private investment we were able to attract in San Francisco. However, the Park Service is currently undertaking a new market analysis to determine if these historic buildings are suitable for leasing for any purposes compatible with the park.

An important authority that the National Park Service has in property management arrangements is the ability to retain lease income. Under Public Law 94-515, enacted in 1980, federal agencies have been authorized to lease a National Register property and retain the lease income. Last year, Congress enacted P.L. 105-391, which provided new authority to the Secretary of the Interior to lease non-historic as well as historic park real property and retain the lease income. We anticipate that this new law will provide an even greater incentive, and a better tool, to enter into cost-effective property management arrangements with private-sector entities. As the GAO report indicated, one of the elements GAO found common to the six different projects it evaluated was the incentive

agencies had to enter into agreements with the private sector because of the ability to retain lease income.

The National Park Service also received expanded authority to enter into cooperative agreements with private nonprofit organizations in 1996, under P.L. 104-208, which has provided more flexibility to develop innovative management arrangements than we had in previous years.

Finally, I would like to discuss briefly the Federal Lands to Parks program and the Historic Surplus Property program, authorized by the Federal Property and Administrative Services Act, which represent excellent examples of partnering with non-Federal entities to accomplish our goal of protecting natural and cultural resources and providing recreational activities for our citizens without incurring additional Federal expenses. These programs, which are administered by the National Park Service, help communities obtain surplus lands for public parks and recreation use, as well as surplus historic properties for museums, governmental offices and community centers. The Park Service makes these properties available at no cost but requires dedication of the property in perpetuity for public benefit. These programs help create new State and local parks, provide public recreation services, conserve natural and historic resources, and contribute to community revitalization and economic development.

In addition to benefiting communities, the programs help the Federal government reduce

its unneeded inventory of Federal land and facilities and help lower management costs by transferring property out of Federal ownership. Most of the property that the National Park Service helps convert is surplus property that results from military base closures, but there are also other Federal properties that become available through the General Services Administration. Since 1949, through the Federal Lands to Parks program, the National Park Service has deeded more than 1,300 properties, totaling approximately 144,000 acres, to State and local governments for public recreation use. And, through the Historic Surplus Property program, more than 130 historically significant buildings have been preserved for the benefit of the public.

Mr. Chairmen, that concludes my testimony. I would be happy to answer any questions you may have.

Responses from Denis Galvin, Deputy Director, National Park Service  
Questions for Written Response for the Record  
Hearing on Federal Real Property Management – April 29, 1999  
Subcommittee on Economic Development, Public Buildings, Hazardous Materials  
and Pipeline Transportation of the  
House Committee on Transportation and Infrastructure  
and the  
Subcommittee on Government Management, Information, and Technology of the  
House Committee on Government Reform

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**Question: Do you think the Presidio and Fort Mason partnerships would have been as successful without either site being located in a prime real estate market?**

The partnerships probably would not have worked if they had not been in an attractive urban location. Large-scale multi-tenant projects such as the Fort Mason Center and the Thoreau Center at the Presidio by definition require large numbers of potential office tenants.

However, as indicated in the General Accounting Office (GAO) report, the Thoreau Center and Fort Mason partnerships were successful due to a number of factors besides the projects' location, including strong public interest in preserving the buildings, the availability of appropriate leasing or cooperative agreement authorities, a local tradition of program-oriented philanthropy in support of park purposes, a commitment to the partnership idea, and the availability of skilled staff. The Fort Mason project was closely linked to the history of public involvement and private-sector philanthropy to support parks. The Thoreau Center arrangement is in many ways similar to the ground leases typically entered into by urban redevelopment agencies. It is necessary to have an appropriately skilled "labor pool" of developers, bankers, and attorneys familiar with ground lease practice in order to consummate this type of transaction.

**Question: Had you not been able to capitalize on San Francisco's tight market for leased space with a public-private partnership, would the NPS have been able to rehabilitate those historic buildings at almost no cost to the Federal Government?**

Had the public-private partnership not been developed, the National Park Service would not have had a way to rehabilitate the historic buildings at little cost to the Federal Government. Again, however, other factors in addition to the demand for leased space made these partnerships successful, as noted in the response above.

**Question: Did I read your testimony correctly, that the NPS was able to shift the cost of rehabilitating and maintaining the historic buildings on the Presidio site to the private-sector, and the NPS still generates \$170,000 annually in rent and fees?**

Yes. As indicated in the GAO report, the National Park Service's private-sector tenant, Thoreau Center Partners, was responsible for financing the rehabilitation of the 12 buildings it leased from NPS, as well as for maintaining the buildings over the life of the leasehold. Thoreau Center Partners also paid the National Park Service approximately \$170,000 in fees and rent in FY 1998. The Presidio Trust assumed the National Park Service's role as lessor to Thoreau Center Partners on July 1, 1998, as part of the transfer of administrative jurisdiction of "Area B" of the Presidio. All fees and rent have been paid to the Presidio Trust since that time.

**Question: Did you have a large display of interest from the public and private sector to partner with you in San Francisco? Did you take competitive bids to partner with you? Could you briefly walk me through the process?**

At the Presidio, the request for qualifications (RFQ) issued for leasing buildings in the Letterman Complex, which was distributed to more than 500 individuals, organizations, and companies, received 16 responses. Two organizations, the University of California at San Francisco and the Tides Foundation/Thoreau Center Partners, were selected from the applicant pool for further discussions. After 6 months of intensive negotiations, the National Park Service and UC San Francisco ended discussions, but the Park Service and Thoreau Center Partners were able to reach agreement. A preliminary lease agreement (usually called a "development agreement" in the real estate industry) was then drawn up.

The preliminary lease agreement spelled out the specific milestones that the Thoreau Center Partners needed to achieve before a final lease would be signed with the National Park Service. The milestones included the submission and approval of increasingly detailed design and construction documents, as well as the securing of project financing and project insurance. When these requirements were satisfied, the National Park Service signed the lease with the Thoreau Center Partners, which enabled the organization to begin rehabilitation required prior to occupancy of the leased buildings.

**Question: Are there other examples of these partnerships that the NPS has entered into?**

The National Park Service has entered into a comparable real-estate partnership at Independence National Historical Park in Philadelphia. There, the National Park Service has embarked upon a major effort to develop Independence Mall, comprised of three city blocks north of Independence Hall. The project includes the building of the new \$30 million Gateway Visitor Center, which will be developed with non-federal funding by the

Gateway Visitor Center Corporation (GVCC), a not-for-profit subsidiary of the not-for-profit Greater Philadelphia Tourism Marketing Corporation. GVCC will also manage and operate the facility.

**Question: What is the status of the former Army site in Sandy Hook, New Jersey, the last I heard you were looking for a private partner? How about the Ellis Island site?**

The former Army base on Sandy Hook, Fort Hancock, was included as a unit of the National Park System in the Gateway National Recreation Area legislation in 1972. The National Park Service is exploring the possibility of creating a partnership, through a public competitive process, to rehabilitate and find compatible uses for many of the available historic structures at Fort Hancock.

The deteriorated buildings on the south side of Ellis Island offer a similar challenge. The National Park Service is exploring the partnership opportunities for those deteriorated buildings. An Economic Feasibility Study has been contracted by the park for the south side of Ellis Island and the information from that study, scheduled to be concluded in the fall, will assist park management in determining the appropriate means to seek a private-sector partner for the rehabilitation of those buildings. A Commission selected by the Governor of New Jersey is also looking into the partnership opportunities for the south side of Ellis Island, and a public hearing of concepts developed by the New Jersey Commission is scheduled for mid-June.

**Question: Were you personally involved in the two projects mentioned in the GAO report?**

I was personally involved in the Letterman project as it moved to the lease. Once we had successfully completed the lease, the detailed redevelopment was done in San Francisco. I was not involved in the partnership agreement at Fort Mason.

**Question: Please describe the Letterman Complex. How did the NPS select Thoreau Center Partners?**

The Letterman Complex consists of approximately 1.3 million square feet of built space, a largely non-historic hospital, and laboratory facilities. The RFQ solicited interest in leasing any combination of historic and non-historic buildings, but required respondents to propose managing at least 50,000 square feet of built space.

Sixteen proposals of varying quality were submitted in response to the RFQ, with two (the University of California at San Francisco and the Tides Foundation/Thoreau Center

Partners) selected for further discussions in June 1994. After 6 months of intensive negotiations, the National Park Service and UC San Francisco ended discussions, but NPS and Thoreau Center Partners were able to reach agreement in December 1994. This was followed by a preliminary lease in February 1995, with the final lease executed in September 1995, when rehabilitation of the four building in "Phase I" began. Construction was completed and the Phase I buildings were occupied in March 1996.

**Question: Please explain the terms and conditions of the arrangement with the Thoreau group.**

The arrangement with Thoreau Center Partners consists of two co-terminus 55-year ground leases for a total of 16 historic buildings (160,000 square feet of built space). The "Phase 1" lease, signed in September 1995, was for four buildings (75,000 square feet). Thoreau Center Partners later exercised an option in the Phase I lease to lease an additional eight adjacent buildings (85,000 square feet) as "Phase 2," which was executed in July 1997. Prior to signing each lease, Thoreau Center Partners was required under the terms of a preliminary lease agreement to complete design and construction drawings for the buildings, negotiate and sign a construction contract with an approved contractor, secure sufficient equity and debt (real estate loans) financing to pay for the rehabilitation, and obtain appropriate liability and property insurance coverage.

Both of the leases are very similar in structure and content, although the economic terms reflect the different revenue potential of each phase. All buildings were leased to Thoreau Center Partners in "as is" condition, with the partnership responsible for all rehabilitation, maintenance, utilities, insurance and other operating expenses during the term of each lease. The National Park Service retained responsibility for the open-space "campus" and landscape surrounding the buildings. Thoreau Center Partners was also responsible for subleasing the improved space to appropriate subtenant organizations. The National Park Service received fees and rent from Thoreau Center Partners under a fixed schedule. The ground leases also provided for sequential fee and rent escalations, including reappraisals, over the term of the lease, as well as assignment and subletting requirements.

The Presidio Trust assumed the National Park Service's role as lessor in the arrangement with Thoreau Center Partners on July 1, 1998, when jurisdiction of "Area B" of the Presidio was transferred from the National Park Service to the Trust. All fees and rent have been collected by the Presidio Trust since that date.

**Question: Under the Park Service's authority to retain lease proceeds – how much income has the Service received from this authority?**

The National Park Service budget request for FY 2000 projects receipts of \$966,000 in FY 1999 and the same amount for FY 2000 for rental payments derived from the leasing of National Park Service buildings and associated property.

At present, the National Park Service may retain revenues from leasing historic buildings only. However, new leasing authority provided by the National Parks Omnibus Management Act of 1998 (P.L. 105-391) will enable the National Park System to retain revenue from the leasing of park buildings and associated property, whether or not the property is historic. Park managers are prohibited from using this authority until regulations for its use are finalized. Thus, the National Park Service is not expected to receive revenue from the new leasing authority until FY 2001.

**Question: Please explain a cooperative agreement. How does it differ from a lease?**

For purposes of this response, a cooperative agreement is a type of financial assistance provided by the National Park Service by which an interest in land is provided to the lessee. Cooperative agreements may not function as, or substitute for, leases. A nonprofit organization partner under a cooperative agreement provides educational or related programs that the National Park Service partially funds. Unlike most leases, cooperative agreements can be awarded by the Park Service on a non-competitive basis.

A lease can be structured to allow the tenant lessee to utilize the leasehold interest in the property to obtain mortgage-based financing, as well as access to other programs such as the historic rehabilitation tax credit. A cooperative agreement is a form of financial assistance, not the use and occupancy of Federal property.

**Question: What requirement is there for the Park Service to incorporate public comment in its process?**

There were no requirements that the National Park Service incorporate public comment in its competitive solicitations at the Presidio. Instead, public comment on the partnership and leasing objectives on the entire Presidio were solicited and obtained during the lengthy public planning process which led to the development of the Presidio's General Management Plan amendment and its accompanying environmental impact statement. Leasing and other partnership arrangements (including concession contracts) were steps to implement the General Management Plan.

**Question: Please elaborate on the authorities granted to the Park Service in P.L. 104-208.**



P.L. 104-208, the Omnibus Consolidated Appropriations Act for FY 1997, gave the National Park Service the authority to enter into cooperative agreements that involve the transfer of National Park Service appropriated funds to State, local and tribal governments, other public entities, educational institutions, and private nonprofit organizations for the public purpose of carrying out National Park Service programs. This gave the Park Service generic authority to enter into such agreements, providing park managers with more flexibility in providing financial assistance.

Mr. HORN. Thank you very much. The last witness on this panel is Mr. Rudolph Umscheid, vice president of facilities, U.S. Postal Service. Welcome.

Mr. UMSCHIED. Good morning, Mr. Chairman and members of the subcommittee. I'm Rudy Umscheid, and I'm responsible for managing the design and construction and all real estate activities of the U.S. Postal Service. Joining me today is Mr. David Eales who is the manager of Realty Asset Management Division of our facilities organization; more simply put, he is responsible for promoting the public-private partnership endeavors for the disposition of underutilized or excess postal properties.

The U.S. Postal Service owns and leases more than 37,500 buildings to provide universal mail service. Our building inventory is in as good a shape as ever. However, it is a constant challenge to keep our real estate assets up to date. Continued population growth and increasing mail volume create the need for additional space. In addition, many of our older buildings are not suitable for today's mail processing methods.

We also must keep our facilities in good repair and manage our leases to ensure continued occupancy of the facilities we rent. In these efforts, we involve the local community in decisions regarding the location of any new facilities. With more than 700 new or replacement facilities occupied each year, we have a good track record in this area, but it can be difficult to get consensus on some locations, and for our processing facilities we have problems finding sites which are suitable for our operation requirements and acceptable to local residents.

Last year we spent \$2 billion on new facilities in upgrades to existing facilities and paid over \$660 million in rent. To accomplish our primary mission, Facilities has a nationwide staff of only 500, supplemented by employees at the local level who administer some of our smaller repairs. We also have a staff of 30 that's devoted exclusively to the disposition of our excess assets.

With such an active program to obtain additional space needed to serve our customers, we find ourselves with former postal facilities, and sites which are underutilized and excess to our needs. The Postal Service has a statutory authority to maximize its excess real estate and to reinvest its proceeds in postal operations.

When we have vacant space in our buildings, we often are able to lease this space to other organizations. We work closely with the General Services Administration to identify space in our facilities suitable for other government agencies. In fact, we currently receive some \$38 million in rent from our public and private tenants.

When properties are excess to our needs, in most instances we simply sell the property. Some assets, however, lend themselves to development because of the unique aspects of a property or their location in commercial districts. Since we lack the expertise to develop and manage these properties, we have entered into a number of innovative and effective partnerships with the private sector. In these situations, we work closely with local public officials and historic preservation groups to make sure the project meets their needs as well. Two of these projects, the Grand Central Station postal unit in New York City and the Rincon postal facility in San Francisco were highlighted in the February 1999 report of the Gen-

eral Accounting Office. In my prepared testimony, I have listed a number of other examples.

Effective use of surplus postal real estate generates revenue which helps keep postage rates low. Such use also benefits the community because it contributes to a reuse of former facilities, many of which are historic buildings in downtown locations. The Postal Service is proud to be a leader in the management of real estate within the Federal Government.

Mr. Chairman, that concludes my testimony. I'd be glad to answer any questions you or your subcommittee members might have. Thank you very much.

[The prepared statement of Mr. Umscheid follows:]

**STATEMENT OF RUDOLPH K. UMSCHIED  
VICE PRESIDENT  
FACILITIES  
UNITED STATES POSTAL SERVICE**

**BEFORE A JOINT HEARING OF  
THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION & TECHNOLOGY  
AND  
THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC  
BUILDINGS, HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
UNITED STATES HOUSE OF REPRESENTATIVES  
APRIL 29, 1999**

GOOD MORNING CHAIRMAN HORN, CHAIRMAN FRANKS AND MEMBERS OF THE SUBCOMMITTEES. THE U.S. POSTAL SERVICE WELCOMES THE OPPORTUNITY TO APPEAR AND DISCUSS OUR REALTY ASSET MANAGEMENT PROGRAM.

THE POSTAL SERVICE IS ONE OF AMERICA'S LARGEST OWNERS, DEVELOPERS, AND MANAGERS OF REAL ESTATE. ITS INVENTORY OF OWNED AND LEASED PROPERTY CONTAINS MORE THAN 37,500 BUILDINGS HAVING A TOTAL FLOOR AREA OF OVER 310 MILLION SQUARE FEET. THESE PROPERTIES ARE SITUATED IN VIRTUALLY EVERY COMMUNITY IN THE NATION. POSTAL PROPERTIES RANGE FROM MAJOR FACILITIES OF OVER 3 MILLION SQUARE FEET IN URBAN AREAS TO SMALL 40 SQUARE FOOT FACILITIES IN RURAL AREAS.

REALTY ASSET MANAGEMENT (RAM) IS A DIVISION OF THE FACILITIES GROUP CHARGED WITH THE RESPONSIBILITY OF DISPOSING OF THE REAL ESTATE IN THIS INVENTORY THAT FROM TIME TO TIME, BECOMES SURPLUS TO THE POSTAL SERVICE'S NEEDS. THIS DIVISION ALSO GENERATES INCOME FROM REAL ESTATE ASSETS BY DEVELOPING

POSTAL REAL ESTATE TO ITS HIGHEST AND BEST USE. THE DEVELOPMENTAL PROGRAM FOCUSES ON POSTAL PROPERTIES STRATEGICALLY LOCATED IN DYNAMIC AND EMERGING MARKETS THAT ARE NOT DEVELOPED TO THEIR HIGEST AND BEST USE.

THE FOLLOWING IS OUR MISSION STATEMENT WITH REGARD TO SURPLUS PROPERTY IN THE POSTAL SERVICE.

**REALTY ASSET MANAGEMENT MISSION STATEMENT  
EXCESS OR UNDERUTILIZED PROPERTIES, DEVELOPMENTAL  
RIGHTS, AND EXCHANGES**

EXCESS OR UNDERUTILIZED REAL ESTATE ASSETS HELD BY THE U.S. POSTAL SERVICE ARE TO BE SOLD OR DISPOSED OF IN THE BEST INTERESTS OF THE POSTAL SERVICE. FUNDS DERIVED FROM DISPOSITION ARE TO BE REPLOYED FOR POSTAL OPERATIONS.

SOME ASSETS, BECAUSE OF THEIR UNIQUE POSITION IN THE MARKETPLACE, MAY HOLD THE POTENTIAL FOR SIGNIFICANT VALUE APPRECIATION IF THEY ARE PREPARED SO AS TO TAKE ADVANTAGE OF A DEVELOPMENTAL OPPORTUNITY. IN THESE INSTANCES, REALTY ASSET MANAGEMENT SHALL TAKE STEPS TO MAXIMIZE THE VALUE OF THESE EXCESS OR UNDERUTILIZED REAL ESTATE ASSETS.

UNLESS IT IS IN THE BEST INTERESTS OF THE POSTAL SERVICE TO RETAIN A LONG-TERM INTEREST IN A PROPERTY DUE TO

POSTAL CO-OCCUPANCY, HISTORICAL CONSIDERATION, OR ADVANTAGEOUS ECONOMIC CIRCUMSTANCES, ALL OTHER SURPLUS OR UNDERUTILIZED ASSETS WILL BE PREPARED FOR SALE.

FOR THOSE PROPERTIES THAT HAVE SIGNIFICANT DEVELOPMENT POTENTIAL, POSTAL FUNDS MAY BE INVESTED TO OBTAIN PROPERTY ENTITLEMENTS, STUDY ALTERNATIVE USES, CREATE PROPERTY DEVELOPMENT PLANS OR TO OBTAIN FUTURE USERS OF THE PROPERTY. IF IT IS DETERMINED THAT A PROPERTY SHOULD BE FURTHER DEVELOPED BY CONSTRUCTION OF IMPROVEMENTS, IT MAY BE DEVELOPED USING FUNDS OBTAINED FROM PRIVATE SOURCES OR THE POSTAL SERVICE SO LONG AS THE RISK OF LOSS TO THE POSTAL SERVICE IS MINIMIZED USING SAFE AND REASONABLE GUIDELINES.

UNLESS IT IS DETERMINED THAT DEVELOPED ASSET IS TO BE RETAINED, THESE PROPERTIES WILL BE SOLD UPON ECONOMIC STABILIZATION OF THE PROPERTY DEVELOPMENT. IN EACH CASE A SPECIFIC EXIT STRATEGY IS PLANNED EITHER THROUGH SALE OR REFINANCING OF THE PROPERTY. PARAMOUNT IN THE CONSIDERATION OF THIS STRATEGY IS THE REDPLOYMENT OF FUNDS BACK INTO POSTAL OPERATIONS. ONCE A PROPERTY HAS REACHED ITS MAXIMUM POTENTIAL UNDER POSTAL OWNERSHIP, WE BELIEVE THAT THE RATE OF RETURN FROM POSTAL OPERATIONS EXCEEDS THOSE RETURNS OF

CONTINUED REAL ESTATE OWNERSHIP.

RAM'S CURRENT DEVELOPMENT PROCEDURES WERE WRITTEN WITH THE FOLLOWING DESIRED OUTCOMES IN MIND:

1. ESTABLISH EFFECTIVE COMMUNICATIONS BETWEEN RAM SENIOR MANAGEMENT AND THE BOARD OF GOVERNORS.
2. ESTABLISH EFFECTIVE CONTROLS THAT WILL CAPTURE FOR AMANGEMENT SCRUTINY THOSE PROJECTS THAT HAVE POLITICAL OR BUSINESS DIRECTION CONSIDERATIONS OR WHICH EXCEED CERTAIN CAPITAL EXPOSURE LIMITS.
3. MAXIMIZE THE VALUE OR RAM SURPLUS ASSETS THAT ARE POSITIONED IN DYNAMIC AND EMERGING MARKETS.
4. DEVELOP INTERNAL RAM EXPERTISE TO DEAL WITH THE OPPORTUNITIES THESES EMERGING MARKETS MAY OFFER.
5. WHERE APPROPRIATE, UTILIZE OUTSIDE CONSULTANTS OR EXPERTS TO ASSIST IN DEALING WITH RAM SURPLUS ASSETS.
6. CONTINUE THE SUCCESSFUL PRIVATE-PUBLIC PARTNERSHIP MODEL THAT HAS

PREVIOUSLY BEEN USED WITH RAM SURPLUS  
ASSETS.

THE PUBLIC-PRIVATE PARTNERSHIP MODEL IS INSTRUMENTAL IN  
OUR ABILITY TO DEVELOP PROPERTIES WITH THIRD PARTIES. SOME  
EXAMPLES OF PROPERTIES DEVELOPED IN THIS MANNER ARE LISTED IN  
THE ATTACHMENT.

IN ADDITION TO PURSUING OTHER TRANSACTIONS LIKE THE ONES  
SUMMARIZED IN THE ATTACHMENT, THE POSTAL SERVICE HAS BEEN  
ENDEAVORING TO REDEVELOP, DEVELOP AND LEASE BUILDINGS OWNED  
OR CONTROLLED BY THE POSTAL SERVICE FOR OCCUPANCY BY GSA  
TENANTS. TODAY THE POSTAL SERVICE AND GSA OCCUPY MANY  
BUILDINGS OWNED BY ONE OR THE OTHER PARTY UNDER A  
MEMORANDUM OF UNDERSTANDING OCCUPANCY AGREEMENT. THESE  
OCCUPANCIES REPRESENT ABOUT \$25 MILLION OF ANNUAL REVENUE TO  
THE POSTAL SERVICE FROM GSA TENANTS AND A SIMILAR AMOUNT TO  
GSA FROM POSTAL OCCUPANCY OF GSA BUILDINGS. (ISN'T THIS  
BASICALLY A WASH?)

THE POSTAL SERVICE HAS BEEN ATTEMPTING TO INCREASE THE  
OCCUPANCY OF POSTAL-OWNED BUILDINGS BY GSA TENANTS. FOR  
INSTANCE, THE POSTAL SERVICE HAS ABOUT 50,000 SQUARE FEET OF  
SPACE AVAILABLE FOR LEASE IN A POSTAL-OWNED BUILDING IN SAN  
FRANCISCO. IN THIS CASE, THE DRUG ENFORCEMENT AGENCY (DEA) HAS



EXPRESSED A DESIRE TO BUILD A LABORATORY IN THE SPACE. THE COST OF THE LABORATORY IMPROVEMENTS AND THE VALUE OF THE BASE RENT WILL BE IN EXCESS OF \$25 MILLION. THE POSTAL SERVICE STANDS READY TO FUND THESE IMPROVEMENTS EITHER THROUGH PRIVATE FINANCING OF THE LEASE OR WITH POSTAL FUNDS.

WE ARE ALSO IN INITIAL DISCUSSION TO DEVELOP A NEW BUILDING IN JACKSONVILLE, FLORIDA TO HOUSE COUNTY/CITY TENANTS, THE POSTAL SERVICE AND POTENTIALLY GSA TENANTS. THIS BUILDING WOULD BE FINANCED THROUGH ONE OF THE PRIVATE-PUBLIC VEHICLES DESCRIBED ABOVE. HOWEVER, AN IMPEDIMENT TO CONCLUDING THESE PROJECTS HAS BEEN GSA "SCORING" CONSIDERATIONS.

ONE OF THE OBJECTIVES OF GOVERNMENT HAS BEEN TO RECYCLE, WHERE ECONOMICALLY POSSIBLE, HISTORIC BUILDINGS IN DOWNTOWN LOCATIONS. WE HAVE PROPOSED TO GSA THAT WE ENTER INTO JOINT VENTURE AGREEMENTS TO REDEVELOP POSTAL-OWNED BUILDINGS FOR GSA OCCUPANCY.

THE JOINT VENTURE ENVISIONS A 50/50 "PARTNERSHIP" BETWEEN THE TWO AGENCIES. THE BASIS OF THE PARTNERSHIP WOULD BE A CONTRIBUTION OF THE PROPERTY BY THE POSTAL SERVICE AND A CONTRIBUTION OF A LEASE BY GSA. USING A PUBLIC-PRIVATE MODEL, THE BUILDING WOULD BE FINANCED AND DEVELOPED. UPON SATISFACTION OF THE LOAN, GSA AND THE POSTAL SERVICE JOINTLY

OWN THE PROPERTY. AGAIN, THE SCORING ISSUE HAS BEEN A MAJOR  
IMPEDIMENT TO THESE PROPOSALS BETWEEN THE TWO AGENCIES.

AGAIN, THANK YOU FOR THE OPPORTUNITY TO TESTIFY TODAY. I  
AM PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

### Attachment

**1. Ansonia Station – New York City**

The USPS occupied a leased postal facility at a below market rent. USPS agreed to contribute its leasehold interest to the Developer in return for a 16% interest in a partnership, which was developing a condominium and retail project. In addition the USPS purchased a condominium unit in the retail project with the intention of occupying the space for postal use. During construction the carrier and retail units were temporarily relocated in the area.

USPS recently sold the 16% partnership interest at a profit and is occupying its new condominium.

**2. Rincon Center – San Francisco**

The USPS owned a historic mail facility that occupied about 3.5 acres on a full city block. Consultants were retained by the USPS to zone the property and obtain development rights for an 842,000 square foot mix-use project. A Request for Proposal was issued and a developer selected to build-out and lease the project.

The USPS granted the developer non-subordinated ground lease with provision for percentage rent and CPI adjustment. In addition the USPS received a 14,000 square foot facility for a retail operation. No further USPS funds were invested in the project.

The property was recently sold to the developer at a profit and ownership of the postal retail facility was maintained.

**3. 850 Cherry Avenue – San Bruno, CA**

The Postal Service owned a property in San Bruno, California occupied by a nine-story office building with a four story adjacent garage.

In June 1996, a Predevelopment Agreement was entered into with a developer for the joint planning and redevelopment of the property. Zoning was obtained for an eight-story 235,000 square foot office building replacing the existing structure.

The property was sold at a profit in 1998 because of the entitlement obtained and the fast appreciating market in that area. The sale proceeds were divided with the developer under a prearranged agreement.

**4. Pine Street – San Francisco, CA**

The USPS constructed a retail postal facility on about 18,000 square feet of land. The USPS was approached by the San Francisco Mayor's Office of Housing to construct about 26,400 square feet of space above the postal building for senior housing units. An agreement was reached to lease the air rights for a 75-year period. In return the USPS has the benefit of both pre-paid rent and an annual rent.

**5. 450 Lexington Avenue – New York, NY**

USPS negotiated a ground lease for the air rights above an existing 200,000 square feet retail/carrier building in New York City. Within these air rights the developer constructed and leased about 1 million square feet.

The Postal Service receives annual fixed rent with a provision for percentage rents based on gross income from the building above a certain amount.

**6. Postal Square – Washington, DC**

In 1990 the USPS entered into a 30-year lease with the GSA to occupy a majority of the old Washington DC Central Post Office building located across the street from Union Station. The lease

was contributed to a limited partnership owned by a third party developer in exchange for a ground lease and a share of the rents net of financing requirements. The GSA lease was then used for collateral in obtaining \$193 million in bond financing running concurrent with the lease. Fee title to the land remains with the USPS and the only collateral for the bonds is the GSA lease. The USPS has no present obligation under the bonds.

The bond proceeds were used to refurbish the building and increase it from approximately 750,000 square feet to approximately 1,200,000 square feet. In addition to the GSA tenants, the building also houses a retail post office, the National Postal Museum, and a restaurant. The Postal Service has received over \$80 million through hypothecation of rental income. No postal capital funds were contributed to this project.

**7. Issaquah, WA**

The USPS constructed a new postal facility with 2.5 acres remaining as excess. A request for Qualifications was issued and a developer was selected to plan and zone the property. The property was platted 4 parcels each of which can be leased or sold.

Once a building permit is issued by the City, the Postal Service will contribute the property to a limited liability company (LLC) in which it and the developer are sole members and owners. One parcel is in negotiations for a build to suit to a restaurant chain. The remaining two parcels will either be sold or built out to accommodate tenants.

**8. Wilkes-Barre Pennsylvania**

The Postal Service entered into a limited partnership with a developer to redevelop a postal-owned historic building for a GSA tenants and a second historic building on another site for joint occupancy by the Postal Service and a GSA tenant. The redevelopment of both buildings was privately financed. At the end of 20 years, USPS will own both buildings free and clear.

Mr. HORN. I thank you very much. Chairman Franks, any questions?

Mr. FRANKS. Mr. Umscheid, when you enter into these development proposals, what is the Postal Service's target return strategies, if any?

Mr. UMSCHIED. We evaluate each opportunity on its individual merits. We balance risk and reward. Our mandate from the Board of Governors is that we are not in the development business. We are not in a position to take high risks. So, our returns tend to be more modest, but have an internal rate of return of 10 to 12 percent depending on the particular project or opportunity.

Mr. FRANKS. Could you elaborate on some of the proposals regarding the GSA?

Mr. UMSCHIED. Well, I think if I understand clearly, I think we are looking to partner whenever possible.

Mr. FRANKS. I'm sorry; particularly as it relates to how scoring might make those kinds of arrangements more difficult?

Mr. UMSCHIED. We are looking for opportunities to partner with the GSA and, in fact, have a very good working relationship with them. In many instances, we have facilities that are suitably located where we have excess space, and they may have the tenancy of another agency who might occupy that space, and so we would like to find creative ways where we might partner; we have the building, they bring the tenant, and we see if we can find an opportunity through the private sector investment, particularly in the area of financing. We don't want to invest postal dollars in a real estate opportunity.

The scoring impacts them and us ultimately in that we have financeable leases and tenants have to be prepared to make long-term commitments, 15–20 years or more to justify the investment. Scoring, which in effect, looks at leases above a certain size, and takes them on a net present value basis, restricts their ability to make those investments.

Mr. FRANKS. Thank you, Mr. Chairman.

Mr. HORN. Gentleman from Texas, Mr. Turner, 5 minutes.

Mr. TURNER. The occasions I have had to have contact with the Postal Service have convinced me that you do have a very good real estate property management operation in the Postal Service, and I might ask, I mean, is it correct that you have the legal authority to do more things than most Federal agencies have? I mean, it seems like you have a great deal of flexibility that you are able to use. Are there some characteristics about your authority that make your real property management options more available than perhaps the rest of the agencies of the Federal Government?

Mr. UMSCHIED. I don't know whether we have more. I think we possibly have more flexibility and leeway because we are a revenue-producing entity. So, clearly, having money, it's a lot easier to be a player when you have money to move forward on opportunities, and I think that's where we are continuing to try and move toward the private sector model of creative structures with business to recycle our buildings. Having personally come from the private sector, I find that there are no restrictions.

One other area that comes to mind is that there are limitations in our borrowing capability. We have to do it either internally or

to borrow through the Treasury. Had we more flexibility to look at other financial markets, particularly at a time when interest rates are low, possibly that would enhance our opportunities.

Mr. TURNER. Well, as I say, it does impress me, the speed with which you seem to be able to move with a project when the decision is made to do so. It seems to show a great deal of innovation that has come to the Postal Service that perhaps has not been able to be felt by the other agencies as well.

I have one question for Mr. Garthwaite about the operations of the VA. It seems that you have been able to use these enhanced-use leases very effectively, but you also mention that you wanted to do a pilot asset disposal program, and I guess what I'd like for you to tell us is what kind of assets do you have on hand that you need greater flexibility to dispose of? Give us some examples.

Mr. GARTHWAITE. Sir, we have, we have 172 hospitals, approximately, that are often sited on large campuses that include a lot of different outbuildings, many of which were part of a previous era of health care delivery and different functions for the Department of Veterans Affairs. Some of our facilities are located on Old Soldiers' Home, dating back to the Civil War, and we have accumulated over time a myriad of different kinds of buildings, a lot of them support buildings, which serve a variety of purposes.

We now have moved into a dramatically different way of delivering health care, which is more outpatient with less time spent in hospitals waiting for diagnostic tests, more done by minimally invasive surgery and other procedures. These changes have left us with hospital and other buildings on campuses that just simply are not needed. These things do require enough maintenance to keep them either operational or keep them from falling down.

Mr. TURNER. You proposed to be able to dispose of 30 properties over a 5-year period, and you need congressional authority, you need a law passed to do this. Is the major element of the statutory change you need to allow you to then keep the proceeds of what you generate from the disposed properties?

Mr. GARTHWAITE. Right. It's a tremendous undertaking to do the administrative details to allow disposition of property to occur, including the selling of the plan in the local community. And the costs of entering into a project are largely personnel related; i.e., it's an extra job for which you would see no appreciable benefit, unless we give them that local incentive. The previous panel spoke to that well.

Mr. TURNER. Thank you very much.

Mr. HORN. I thank the gentleman. I now yield my time of 5 minutes to the gentleman from California who will also have his 5 minutes following that if he wishes, Mr. Ose.

Mr. OSE. I thank the chairman. With great respect, I would like to converse with Mr. Yim about a particular project in our area related to a BRAC. It's nice to see you.

Mr. YIM. Nice to see you, sir.

Mr. OSE. Mr. Yim used to work in Sacramento, and much as when Custer was called to the VIA, he was called to Washington. Expecting to return, we will deal with that tomorrow. That was 7 years ago and McClellan has suffered since your departure from

what I would call a less degree of attention. You were very good. Not much has happened since you left.

I am very concerned about the manner in which we are proceeding with the reuse of McClellan. I know the local authorities have now selected a master development partner as of Tuesday evening, and they're going to work forward on a plan for the reuse of the base, hopefully by August.

My question really delves down to how do we facilitate the transfer of properties on McClellan in a timely fashion? There's over 1,000 different structures there scattered about the base, as you know. Right now, the transfer process takes about 120 days for any single building. How do we change that? Are there requirements that we in Congress can give to you and the administration to facilitate the transfer? There's 26,000 transactions that have to occur at McClellan between now and July 13, 2001. How do we get that done?

Mr. YIM. I will be meeting with the delegation from Sacramento on Monday to discuss some of these issues with Secretary Dishner of the Air Force, Deputy Assistant Secretary Dishner of the Air Force.

I believe that we've set a good framework at McClellan for rapid transfer by completion of some of the prerequisites to property disposal, the compliance with the National Environmental Policy Act and the California counterpart, CEPA. One of the concerns we have here is the environmental condition of many of our military bases, and McClellan in particular as a Superfund site, will limit the ability to transfer title under the Federal Superfund statutes until clean-up progresses to a certain area. I think we need to be vigilant to assure that the clean-up schedules are adhered to, that those milestones are met so that those prerequisites to transfer are completed in a timely manner and do not delay concrete reuse projects.

Mr. OSE. Let me ask a question. I want to make sure I understand. Federal law right now says that in a BRAC, if we're going to transfer possession or occupancy, then the property prior to transfer has to absolutely comply with the not being a part of Superfund?

Mr. YIM. No. It actually breaks down to two issues, a transfer of title versus a transfer of possession. Transfer of fee title to the property could not occur until the clean-up has progressed, in the words of the statute, until, "all remedial action has been taken." That has not been interpreted to be when the last ounce of contaminant has been removed from the soil but rather when the remedy is in place and demonstrated to be operating correctly.

If I recall, because of the significant groundwater contamination, we expected it would take a year, something on that order of magnitude, for that trigger to be reached at McClellan so that title to property could be conveyed. However, in the interim there can be leasing of the property with appropriate restrictions to protect human health and the environment. What I would be very interested in, is to be sure that both the Department of Defense and the Air Force are leaning forward correctly to accelerate interim leasing of the property where appropriate, even though title may not be able to be transferred.

Mr. OSE. The transfers or the leases, whether it be fee simple or occupancy, how long is that taking in a typical BRAC situation?

Mr. YIM. Well, again, transfer of title is dependent upon clean-up actions. So one of the things we are doing here at the Department since I have been here, is to raise the level of priority that other members of the Federal family give to base reuse as we ask the Department and the services to provide.

So, for example, for the regulatory agencies such as the U.S. Environmental Protection Agency or State counterpart agencies, we are working with them really to raise the level of visibility and emphasize the importance reuse has in job regeneration and job replacement.

Typically, it could take on the order of 2 years to proceed through all of the wickets to allow interim leasing decisions. I think we are able to shorten that substantially at McClellan and other Department of Defense facilities by being more aggressive on that, sir.

Mr. OSE. How many transactions per day, if you will, are we currently completing at McClellan in terms of the 26,000 that's been identified, whether they be paperwork transfers between agencies and what have you? Of those transactions that the Air Force has identified as being necessary to complete the closure, how many of those per day are being done?

Mr. YIM. In all honesty, I'm not familiar with the 26,000 item transactions that you have raised, but I'd be happy to take that for the record, sir, and try to get back to you. I'm just not familiar with that particular metric.

Mr. OSE. The source of my information is General Weidemer, who is commanding officer out there. So it may be paperwork transfers, transactions and what have you, but again, if we're going to do 26,000 of them, we got a little over 800 days, that's 30 a day, in addition to everything else you're doing.

Mr. YIM. Again, I will be happy to look into that, sir, and provide you an answer for the record.

[The information referred to follows:]



**INSERT FOR THE RECORD  
HOUSE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE  
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY  
SUBCOMMITTEE  
OVERSIGHT OF FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

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**COMPLETION OF LAND TRANSACTIONS AT MCCLELLAN AFB**

The estimate of 26,000 transactions is not based on a detailed accounting of the work that needs to be accomplished at McClellan AFB prior to the closure date but, instead, represents one individual's rough estimate of the number of actions necessary to complete the closure including real and personal property transfers, personnel actions, contract close outs, and other necessary actions. Despite the seeming magnitude of the work to be accomplished at McClellan AFB by the July 2001 closure date, rest assured that there is nothing to indicate that the closure date will not be met. The Air Force has already begun the process of transferring both the real and personal property to the County of Sacramento. A transition plan for all of the land and facilities has been developed and is periodically revised in close coordination and cooperation with the County of Sacramento. In this plan, the land and facilities have been clustered into eight logical units. Within each of these clusters there will be multiple transactions. The actual number of transactions will continue to change as the Air Force strives to maximize efficiencies and to ensure all facilities are delivered to the County in a timely manner.

The Air Force will be delivering possession of the land and facilities to the County of Sacramento in accordance with the Economic Development Conveyance (EDC) Agreement and the related lease in furtherance of conveyance. The lease was finalized in August of 1998. As buildings become available and the LRA expresses interest in reusing the facilities, supplements to the lease are completed. To date, four supplements have been completed or are in process.

The Air Force will transfer the personal property to the County by bills of sale, each of which will include numerous items. These bills of sale will transfer groups of assets the LRA is interested in obtaining when they are no longer needed to support the McClellan Air Logistics Center missions. To date, eight bills of sale have been or are in the process of being completed.

Mr. OSE. All right. Do you have any information relative to other bases that are being closed as to how long it has been taking to transfer a structure within the base?

Mr. YIM. Typically, it's on the order of about 12 to 18 months, and I agree with you that that is too long. We need to be able to be smarter in how we transfer property. I believe firmly, and I believe the services now with their experience believe that the key is rapid and smooth transition of the property. This is not a real estate transaction in the sense that we're trying to maximize money from the disposal of the property. When we focused on that in 1988, then the delays were really enormous at that time.

Since 1993 as we began to emphasize smooth transition, keeping the property in productive use, getting it back onto the civilian property tax rolls, as opposed to negotiating for every last dollar from the local community, I think we have seen a great speeding up of the process. You may know, sir, that we are proposing legislation to Congress to accelerate that by seeking no-cost conveyances of properties for future rounds if the property is to be used for job generation purposes.

Mr. OSE. On a relative scale, has McClellan been a success story in the manner in which it has proceeded toward closure?

Mr. YIM. I think that many of the processes that we have employed at McClellan are models for the Department of Defense. We greatly shortened processing time by combining the NEPA, the Federal environmental requirements, planning requirements, with CEPA, the California counterparts, and we arrived at a NEPA document in approximately 12 months when those typically take about 2 years. I think that was dramatic improvement. We're able to reach agreement on economic development conveyance in that same 12-month timeframe when typically it takes 2 years, 2½ years, to do those negotiations.

There is a master caretaking cooperative agreement there in which we were working toward a concept of a hot turnover of the assets, so that as the military draws down capabilities, rather than to have the asset go dead, there is a concurrent turnover of base operation supports so that the local community is familiar with how to run the facilities, the quirks of the facilities, gets other tenants and private sector entities in. So I think those are innovations.

In terms of reuse, Sacramento, as we both know, was very hard hit with three major closures since 1988. So in terms of recovery, I think that Sacramento has had a harder road than some other communities where they don't have cumulative economic impact.

Mr. OSE. Is the methodology that's being employed at McClellan the model that you're expecting to use on these future rounds?

Mr. YIM. Well, since I was involved in some of that methodology, I would have to say yes, because I believe that it worked properly, and I would like to try to infuse similar techniques into future rounds.

Mr. OSE. That brings me to my basic question, and I'm familiar with the proposal on the economic development conveyances for some transfers at zero cost. In a situation where a community such as Sacramento has been hit as hard as it has been hit, and where we have bent over backward trying to create an innovative process

which you've recognized as being better than the norm, why would we not reward that community with, for instance, the pilot project of the zero cost conveyance?

Mr. YIM. We actually have a different legal structure where we're dealing with pending or anticipated economic development conveyances and where the economic development conveyance has already been executed, as in the case of McClellan. So the Department of Justice and our counsel indicate that to change or renegotiate already executed transactions, we would have to either have replacement or additional consideration or maintain the same present value.

I will say that we have supported and we are going to be proposing that the services be afforded greater flexibility for already executed economic development conveyances, provided again the results are consistent with the new legislation, and that the revenues would be used for job creation, reinvestment, either in the installation or in the surrounding community.

So, yes, I am as part of the legislative packet, seeking some sort of equitable relief for those communities that were aggressive and stepped forward in partnership with the Department and the services to proceed down the path before this new announcement for a change in the legislation.

Mr. OSE. Mr. Chairman, Mr. Franks, am I on my first 5 or second 5 minutes or have I used it all up? I will be back.

Mr. FRANKS [presiding]. Would the gentleman like another 2 minutes to ask—

Mr. OSE. Go around again? No, I can't, but I would like more time, but 2 minutes is not sufficient, so let's go on.

Mr. FRANKS. The panel, I know, will be willing to respond in a timely fashion to any further inquiries pertaining to this matter from the gentleman from California.

Mr. YIM. Yes, sir, certainly.

Mr. HORN. If I may say, in terms of just general policy, we will submit written questions perhaps to all of you on each panel. Just remember you are under oath in making answers to that, so we will send the questions over.

Mr. OSE. I will take I appreciate the chairmen's total courtesy to a freshman. I have one other question, if I may?

Mr. FRANKS. Please followup.

Mr. OSE. At McClellan there are certain pockets of the base that are very similar in characteristics, like the residential here and the recreational there and the industrial over there and the microelectronics down here and blah, blah, blah. One of the difficulties that I have been able to pick up is that the manner in which the individual structures within each of those pockets is transferred is unique, that being that this building, which might be right next door to a very similar building, has its own 120-day requirement.

I would like to see us bundle similar buildings so that rather than have 1,000 transactions of four different types of buildings, we have four transactions of 250 buildings each. I think that would certainly expedite what we're trying to do here, which is get these things back on the private roll, available for private use.

Has the Department given any thought or explored this particular aspect?

Mr. YIM. I would hope that the policy is already being implemented. The purpose of our specialized services teams is to typically identify what the problem is that each structure has to be screened for any environmental hazards, and a finding of suitability to transfer a lease which is dependent upon any site-specific characteristics has to be performed. If everybody starts from scratch without establishing a baseline in advance it can be very time consuming.

I will continue to encourage the services to create some baselines. Essentially 80 percent of the work is common throughout a particular area. That can be done, and then any particular characteristics of a building could then be assessed relatively quickly, and I will encourage the services to do that.

Mr. OSE. Is the baseline being established at McClellan?

Mr. YIM. Yes, I believe it has already been established at McClellan.

Mr. OSE. For the various environmental challenges in any particular structure?

Mr. YIM. I cannot say that universally, but I believe for the main it has already been established.

Mr. OSE. We will followup with a written question.

Thank you, Mr. Chairman.

Mr. FRANKS. I'd like to thank the members of the panel for coming today and being so helpful to us during the course of the hearing.

I'd like to now call the third panel up to the witness table. We now have Mr. G. Martin Wagner, the Associate Administrator of the Office of Governmentwide Policy, General Services Administration, who will be accompanied by Mr. Robert Peck, Commissioner of the Public Buildings Service and Mr. David Bibb, the Deputy Associate Administrator for the Office of Governmentwide Policy. Consistent with the rules governing this particular subcommittee joint subcommittee hearing, it is Chairman Horn who is empowered to swear in the witnesses. So he is going to undertake that function at this point.

Mr. HORN. These gentlemen know the routine. Raise your right hands.

[Witnesses affirmed.]

Mr. HORN. The clerk will note that all four witnesses have affirmed the oath.

Mr. FRANKS. Gentlemen, we welcome you. Mr. Wagner, please begin.

**STATEMENT OF G. MARTIN WAGNER, ASSOCIATE ADMINISTRATOR, OFFICE OF GOVERNMENTWIDE POLICY, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY ROBERT PECK, COMMISSIONER, PUBLIC BUILDINGS SERVICE; AND DAVID BIBB, DEPUTY ASSOCIATE ADMINISTRATOR, OFFICE OF GOVERNMENTWIDE POLICY**

Mr. WAGNER. Good morning, Chairman Franks and Chairman Horn and distinguished members. Thank you very much for inviting us. I am Marty Wagner, Associate Administrator for Governmentwide Policy at GSA. I'm accompanied by Robert Peck, the Commissioner of the Public Buildings Service, and David Bibb, who

works as my Deputy Associate Administrator for Real Property Policy.

Our mandate in governmentwide policy is to focus on working out ways that the government does a better job of managing itself, and that certainly includes real property, and I would like to emphasize that's real property in all Federal agencies, not GSA's Public Building Service. It's also increasingly clear that real property is an extremely important strategic asset for effective government management. It's also one where we need to do a lot of additional work.

I noted that some of the earlier figures given in the hearing, we seem to have radically different numbers about how many dollars we have invested in real property. Part of that is issues of methodology, but I think part of what is also indicative in that spread is we need to be thinking more systematically about this as an economic asset.

In our 3 years of existence in governmentwide policies, I would like to mention that we have had some significant accomplishments in real property management. We have demonstrated that a collaborative policy development model involving all stakeholders is a good way to develop policy.

We have promulgated a set of asset management principles as an attempt to get this more strategic look at this as a strategic asset. We have developed performance measures in working with the private sector for real estate management. We have proven that, if you go into the regions, leave Washington, DC, and go out into the real country and get with government agencies, that if you find opportunity to put agencies together on real property, there are opportunities for agencies to become more effective and to save money for the taxpayers.

And, finally, we have to manage an information technology system that is used by many agencies for real property management. Its use is growing. And that is also an effective strategic tool.

Nonetheless, I have to agree with the panelists earlier that we have many problems. We lack a strategic focus in real property management in many areas. Too much of the Federal inventory is deteriorating or underutilized. Management incentives are often at odds with good property management. The focus of the law is at the end of the useful life of real property assets when the government no longer needs the asset rather than when we do need the asset. This is also actually an issue in personal property as well.

Agencies have responded to this in many cases with workarounds to deal with those problems, but those are, at best, piecemeal solutions. And we think a more global approach to the government as a whole is warranted.

We expect to be proposing very soon legislation to address these problems. We will focus strategically and on assets during their useful life. We want to bring in more flexible tools such as have been mentioned today, out-leasing, use of public-private partnerships, and I would like to also mention that in our discussions with many of the players, including the Office of Management and Budget, our approach to this has not been an approach to repealing the scoring rules, but to do this within the scoring rules. Those discussions continue. We would also like to improve incentives on in-

dividual managers with and agencies by using retention of proceeds.

And, finally, on issues like the McKinney Act, we feel that a better way to deal with the goals of the McKinney Act would not deal with properties on a transaction-by-transaction basis but through a share of the overall proceeds from property disposal program.

These proposals that we will be making are consistent with the recommendations of the General Accounting Office and the National Research Council. We expect them to lead to more effective real property management, lower cost to the taxpayer, as well as an increase in the number of properties available for disposal.

Mr. Chairman, I would be happy to answer any questions you might have.

[The prepared statement of Mr. Wagner follows:]

STATEMENT OF  
G. MARTIN WAGNER  
ASSOCIATE ADMINISTRATOR  
OFFICE OF GOVERNMENTWIDE POLICY  
GENERAL SERVICES ADMINISTRATION  
BEFORE THE  
COMMITTEE ON GOVERNMENT REFORM  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION,  
AND TECHNOLOGY  
AND THE  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC  
BUILDINGS, HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
U.S. HOUSE OF REPRESENTATIVES  
APRIL 29, 1999



Chairman Horn, Chairman Franks, and members of the subcommittees, my name is G. Martin Wagner. I am the Associate Administrator for Governmentwide Policy, General Services Administration (GSA). The Office of Governmentwide Policy (OGP) is one of four major activities within GSA, the others being the Public Buildings Service, the Federal Supply Service, and the Federal Technology Service. GSA created OGP to establish a central point for sound policy development, research, sharing best practices, and consensus building across the full range of Government administrative support activities.

With me here today is Mr. Robert Peck, the Commissioner of the Public Buildings Service, and Mr. David Bibb, the Deputy Associate Administrator for Real Property.

Under Mr. Bibb's direction, the Office of Real Property explores and develops asset management policy concepts. Its objective is to improve the policies and processes with which Federal agencies acquire, use, and dispose of the property interests they need to conduct their missions.

The Government presently owns or leases approximately 3.2 billion square feet of building space, as well as millions of acres of both improved and unimproved land. The attached charts illustrate this 3.2 billion square foot building area, which is our sphere of influence under the Federal Property and Administrative Services Act of 1949, as amended (Property Act).



We are pleased to appear before you today to highlight some of GSA's views concerning the present state of Federal real property management.

**Prevailing Law:** The Property Act is the centerpiece in the body of law that governs the acquisition, use, and disposal of most classes of Federal real property. This law has served the Nation well for the past 50 years, but it has never been significantly revised.

Certain elements of the Property Act restrict the Government's ability to adapt some "best practices" that have become commercial standards. The law is especially ill suited to the current national objectives of downsizing, streamlining, and creating a Government that works better and costs less.

**Present State of the Federal Inventory:** The Federal real property inventory is enormous, globally distributed and aging. Its utility is diminished by properties that are in poor condition, functionally obsolete, environmentally flawed, or otherwise mismatched to current requirements of the missions it is supposed to support.

In many of its reports addressing real property issues in recent years, the General Accounting Office (GAO) has observed that Federal agencies are generally reluctant to relinquish unneeded or marginally productive properties because of the lack of any genuine incentive to do so. Where GSA has been asked to respond to such issues in these reports, we have emphasized our concurrence with GAO's views.

We also concur with a statement by the National Research Council in its 1998 report entitled *Stewardship of Federal Facilities, A Proactive Strategy for Managing the Nation's Public Assets*, that "Federal agency program managers, the GAO, and research organizations have all reported that the funding allocated for the repair and maintenance of federal facilities is insufficient." Among its findings, the report also asserts that government processes and practices are generally not structured to provide for effective accountability for the stewardship of federal facilities and that management, budgeting, and financial processes create disincentives and institutional barriers to cost-effective facilities management and maintenance practices.

**Discoveries and Interim Measures:** GSA has noted the findings of the National Research Council, the General Accounting Office, and other bodies that have studied contemporary Federal property management issues. We have remained mindful of their common themes and compared them with the product of our own examination of the effects of prevailing law and regulations. We have also made some important discoveries in the course of collaborations with other Federal agencies, prominent private sector entities, and our counterparts in both domestic and foreign governments.

From our studies and contacts we were able to identify certain measures that could be undertaken in the short term to stimulate more enthusiasm for good asset management within the Federal community.

We established the Federal Real Property Council to provide an interagency forum for all land holding agencies to air their views and thus properly influence Governmentwide real property policy formulation.

In collaboration with the Federal land holding agencies, we developed and published a set of Asset Management Principles intended to serve as touchstones for the measurement of the quality of Federal real property decision-making.

Among other studies, we conducted two of special mention.

One was on Governmentwide Real Property Information Sharing (GRPIS). This was an inquiry to determine the best means of sharing real property information among agencies within a community for purposes of promoting economy and operational efficiencies.

The other is referred to as the Governmentwide Real Property Disposal Review; it involved an evaluation of the effectiveness of current policies in the present Government downsizing environment.

We also established a Real Property Information Clearinghouse to provide electronically accessible information on real estate data, organizational structures, and commentaries by real estate professionals on policy and procedures topics.

We have revitalized the Foundation Information for Real Property Management (FIRM) database, which is a computerized tool provided to Federal agencies for use in managing their real property.

Finally, we established a GSA Achievement Award for Real Property Innovation, which is given annually to recognize especially meritorious practices that have been developed in the Federal community.

The foregoing projects were possible within current legislative authorities. They have enjoyed a gratifying degree of popularity and praise, and we will continue to refine them and look for further opportunities to institute practical enhancements to Federal real property management processes.

We believe, however, that in order for the Government to improve its stewardship of real property assets, certain statutory barriers must be removed, and certain authorities must be modernized to meet the challenges of today's commercial realities.

**Legislative Solutions:** The Property Act requires that whenever a Federal agency finds that its real property portfolio and mission requirements are mismatched, the agency must either adapt to the detected shortcomings or relinquish affected property as excess, and then obtain appropriations for the acquisition of replacement facilities. As reported by the National Research Council, many agencies are unable to obtain sufficient funding for their real property capital and maintenance needs.

We suggest that the interests of the Government would be better served if the agency were able to restore and optimize the mission support role of particular real property by putting it to use through a number of new tools and by establishing new incentives to encourage sound asset management.

We envision special authorities which would permit agencies to dispose of property (1) by exchange, both within and without the Federal community, to obtain other property better suited to their mission support needs; (2) by outleasing temporarily underutilized portions of property on a short-term basis; (3) by allowing agencies to retain proceeds from property sales and outleases; and (4) in judiciously selected cases, by allowing agencies a special long-term outleasing authority to engage in public/private partnership arrangements that can be shown to provide extraordinary support to Federal mission purposes.

Consideration received by an agency would be acceptable in the form of money, services, or a mix of those values. Non-monetary consideration could be in the form of any blend of protection, maintenance, managerial, restorative, developmental, or other valuable services. These forms of consideration should optimize the role of the affected asset in supporting the mission to which it is related.

If these innovative authorities are enacted into law, we believe that monetary revenues accruing to an agency as a result should be used to improve the balance of its real

property portfolio or to meet other non-recurring needs. Further provisions should be included to require--

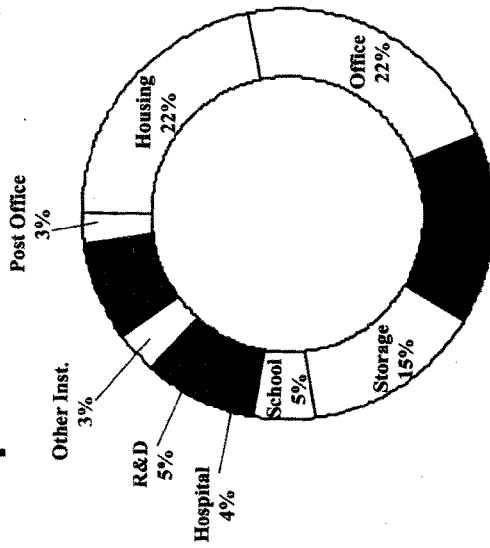
(1) that advance notices be provided to interested committees of the Congress in cases that exceed a specified value threshold; and

(2) that any proposal to use these special authorities must take place in relation to asset management planning that is linked to the strategic planning periodically required under the Government Performance and Results Act of 1993.

Given these controlling specifications, we are convinced that the envisioned special authorities would be a boon to Federal landholding agencies. Over time, they would help bring about a condition where agency real property portfolios would be characterized by a high ratio of well performing properties excellently aligned with mission needs. Properties of poor functional quality will have been either culled from Federal inventories or restored to optimum performance.

Chairman Horn, Chairman Franks, this concludes my prepared statement. I will be pleased to answer any questions you or the members of the subcommittees may have.

# Sphere of Influence



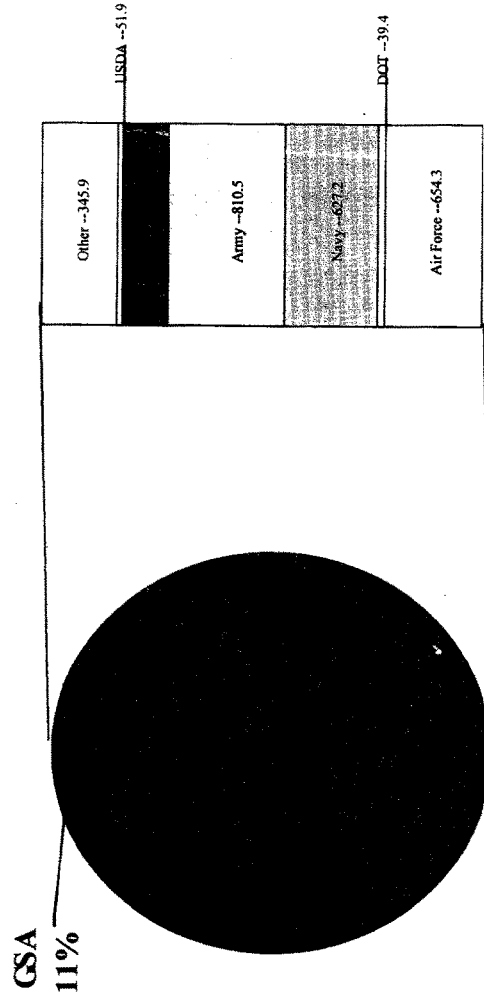
The Governmentwide space inventory is 3.2 billion square feet.

Source: FY97 Worldwide Inventory



GSA OFFICE OF GOVERNMENTWIDE POLICY

# Sphere of Influence



Inventory shown in millions of square feet  
Source: FY97 Worldwide Inventory



GSA OFFICE OF GOVERNMENTWIDE POLICY



Mr. FRANKS. Mr. Wagner, thank you very much. We are going to be brief because we have just been summoned to the floor for a vote.

But I would like to ask, what do you mean in your testimony by judiciously selected cases for the application of long-term outleases for public-private partnership.

Mr. WAGNER. Fundamentally, we would see this as one tool in the real property toolbox, so it won't apply to all properties. The properties where we think they would make the most sense or that they do make sense is one where there is a continuing government need for the property if the government doesn't need the property anymore, then we should simply dispose of it one in which there is value to the private sector, a continuing need where we can work out a deal that benefits both the private sector as well as enables the government to continue to do its job more effectively.

Mr. FRANKS. My colleague, Mr. Horn, any questions for Mr. Wagner?

Mr. HORN. Just one question, and that is the McKinney Homeless Assistance Act. It requires that the surplus property be screened for use for the homeless prior to the disposal. Since fiscal year 1990, I am told only 39 cites have been transferred for use by the homeless under this authority. Do you think this act is achieving its intended purpose?

Mr. WAGNER. I would I think the reason we are proposing, or we will be proposing a change to the legislation is that we think a better way to do this is not to put McKinney Act processes in the middle of every single individual transaction, which tends to be slower, and, in fact, create incentives to have more properties disposed of in the first place; and then take some fraction of those proceeds and apply those to benefiting the homeless.

Mr. HORN. The witness from the Department of Veterans Affairs suggested an approach requiring that 10 percent of the proceeds from Federal property disposal always be transferred to the Department of Housing and Urban Development for the use of the homeless assistance groups. What do you think of that approach?

Mr. WAGNER. I would hesitate to go with any specific percentage. So I really I don't have a good feel. Perhaps—

Mr. BIBB. Well, Mr. Chairman, we are discussing with OMB what that percentage ought to be. It certainly should be a fair amount. I don't think we would want to see a shortchanging. But at the same time, we are trying to balance what we are doing to protect the incentives to the Federal agencies. So as Mr. Wagner says, the exact percentage hasn't been determined. Somewhere in the 5 to 10 percent range, I think we are talking around those numbers. And that will be something we will be pursuing.

Mr. HORN. Well, that approach makes sense to me for this reason. I think you all know we get tied up in knots, taking month after month after month. Many of these groups have never run a housing project before. They overestimate. They are wonderful people with, I'm sure, pure motive. But the fact is they can't run it, and they often fail. They would be better off if HUD had a pot of money where they could deal with housing in some innovative way and mainstream the people rather than have this is the homeless project. It hasn't worked. But it takes lawsuits, it takes all the rest

of this nonsense to go on. I think we would be doing more for the homeless if we took the VA approach to this. That is my only view on this, Mr. Chairman.

Mr. FRANKS. I concur. Mr. Peck, if I might real briefly, what is the current status of the redevelopment of the Boston City Plaza?

Mr. PECK. That is a very good question. And I am not sure that anybody in Boston knows the answer. The John F. Kennedy Federal Building is on the Boston City Hall Plaza and is there pursuant to an urban renewal scheme which was executed some time in the mid to late 1960's. The city has proposed doing something to make the plaza more lively. We have been trying to cooperate.

I will tell you in short, we took a look at a public-private partnership proposal to redevelop the low-rise portion of the JFK building, in part because where our building was situated and where the city wanted to build things, it didn't quite work, and we thought that maybe realigning those boundaries and moving our space differently around in the plaza might work to the benefit of both parties.

The bottom line that is interesting is that the numbers just don't work. We recently invested in the low-rise and the high-rise building there. To make the numbers work would require significant expansion of space on our site to the point that I think it would make the cite more dense than the city planners in Boston would be prepared to see.

So the bottom line is we are talking about less extensive options on redeveloping the City Hall Plaza. But I have to say it is a good example of where having the authority to do some kind of public-private partnership, at least in theory, could have helped both of us satisfy our own objectives, ours of keeping 300,000 square feet of usable space on that low-rise site and the city's of redeveloping it for commercial and other uses.

Mr. FRANKS. I thank you for that brief update. We will probably be making a further inquiry about the status of that project.

I would like to thank the members of the third panel. Mr. Wagner, thank you for visiting and offering your testimony. On that note, seeing no further questions, the meeting is adjourned.

[Whereupon, at 12:07 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]



THE DEPUTY DIRECTOR

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

Statement of Sylvia Mathews  
Deputy Director  
Office of Management and Budget  
for the  
Subcommittee on Government Management  
Committee on Government Reform  
and the  
Subcommittee on Economic Development and Public Buildings  
Committee on Transportation and Infrastructure  
U.S. House of Representatives

April 29, 1999

Thank you for the opportunity to submit this statement on the Administration's initiatives to improve Federal real property management.

**Federal Government is Largest U.S. Land Owner**

No other entity in the United States manages a real property portfolio as large and diverse as does the Federal Government. The vast majority of Federal lands are public domain (or formerly public domain) lands used for their natural resources (e.g., national forests), conservation (e.g., national wildlife refuges), and recreation (e.g., national parks). These lands are subject to a wide variety of laws that direct their uses and control their disposal. This year, the Administration intends to propose legislation that will allow the Department of the Interior (DOI) to use the proceeds from the sale of unneeded public domain lands to purchase inholdings in national parks and other DOI lands. We also expect to propose a bill that will allow the Forest Service to enter into agreements with concessionaires to improve Federal recreational facilities on Forest Service lands.

Most of the daily business of Federal agencies, however, takes place in the thousands of buildings owned and leased by the Federal Government. The *1998 Financial Report of the U.S. Government* valued these buildings and the related land at over \$200 billion (after depreciation). These facilities vary widely and support scientific programs at the National Aeronautics and Space Administration, Energy Department, and National Institutes of Health; medical programs at Department of Veterans Affairs (VA) and Department of Defense (DoD) hospitals; military facilities; Internal Revenue Service processing centers; supply depots; and offices that house thousands of Federal workers.

Since 1949, the principal statute that has governed the management of this property has

been the Federal Property and Administrative Services Act of 1949, generally called the Property Act. On this 50<sup>th</sup> anniversary of the Property Act, we share the Committee's belief that it's time to re-examine this Act and to make improvements where needed.

#### **Times Have Changed Since the Property Act Was Passed**

The country and the Federal Government were very different in 1949, when the Property Act was being developed, than they are today, 50 years later. Federal facilities that were fairly new in 1949 are now old and require greatly increased spending on maintenance and repairs. Moreover, changing technologies and the increased reliance on computers and telecommunications in the workplace have changed the way facilities are used and placed new demands on these aging facilities. A recent study by the National Research Council reported that maintenance and repair needs are seriously underfunded and that the condition of many facilities has deteriorated as a result. The study report attributes this problem mainly to the lack of good information and analytic tools to make property-related funding decisions and lack of effective accountability for the responsible care of real property. The report of the President's Commission to Study Capital Budgeting found many of the same weaknesses in real property information and tools for making capital funding decisions.

As you know, the Property Act limits the ability of most Federal landholding agencies to recoup the value of real property investments that no longer support, and in some cases hinder, their missions. If they can't find another part of the agency with a need for such property, they must declare it excess and make it available first to other Federal agencies, then to homeless groups and other eligible state and local donees, and finally allow it to be sold. Over the past five years, almost 80% of surplus Federal real property was conveyed to state and local interests at no cost and produced no sales proceeds for the Federal Government.

The increased pressure to find funding for maintenance, repair, and other property-related needs in recent years has led several agencies to seek authorities to dispose of or outlease property outside of the Property Act and use the proceeds for those purposes. For example, DoD and VA have received both permanent and time-limited demonstration authorities to outlease or sell real property and use the proceeds to meet various agency needs, generally related to property. For most agencies, all sales proceeds are deposited in the Land and Water Conservation Fund. The only benefit that these agencies derive from such disposals is a reduction in the costs of protecting and maintaining those properties, which can be large in some cases.

#### **The Administration is Proposing Major Reform of Real Property Management**

The General Services Administration (GSA) will soon propose legislation to reform the Federal Property and Administrative Services Act. This is an element of one of the twenty-four Priority Management Objectives announced in the President's FY 2000 Budget. This GSA proposal will not affect separate authorities that agencies have already received for base closures and other property disposals. There are several other bills being finalized or under interagency

review, including proposals from DoD and VA, that would amend these independent real property management authorities. Additionally, later this year, we expect to submit legislation which would affect how we can reconfigure Federal holdings of public domain lands to improve their management and programmatic effectiveness.

We expect the changes to be based on the following principles:

1. Federal agencies should be authorized to sell unneeded facilities and land and to invest the proceeds to meet other capital and/or one-time needs. Furthermore, a broader array of agencies should also be permitted to sublease vacant space in buildings they lease and outlease buildings or space in buildings they own on a short term basis, i.e., for five years or less.
2. Federal agencies should also be permitted, within limits, to partner with private sector developers and to outlease to them Federal land and buildings on a longer term basis in exchange for cash or in-kind services. However, Federal agencies should not be provided with the authority or incentives to get into the real property business. As a basic principle, since real property should be only used to support agencies' missions, we do not want to create incentives to retain properties that can and should be sold. We also want to avoid the more complex joint ownership arrangements with private partners that could potentially expose the government to unknown liabilities or undue risks. We propose limiting public-private partnerships to long term outleases of 20 years for properties that could otherwise be sold and to a longer term for properties that cannot be sold. We also propose to grandfather the broader statutory authorities that some agencies already have.
3. The Federal Government should operate under a consistent policy framework for real property management that (a) strengthens agency accountability, (b) recognizes differences in agencies' real property needs, (c) improves inventory and management information, and (d) looks at the entire life cycle of real property, not just the last phase of that life cycle, the disposal phase. This responds to several recommendations from recent reports by the National Research Council and the President's Commission to Study Capital Budgeting, as well as the findings of GSA's Property Act review.
4. The Federal Government should improve the effectiveness of its role under the McKinney Act to use surplus Federal property in relieving and mitigating the terrible problem of homelessness. One option under serious consideration would be to offer homeless groups a share of disposal proceeds in lieu of a claim to surplus Federal property. This would be easier to administer than the current process and provide homeless groups greater flexibility in applying this benefit to meet their specific needs.
5. State and local recipients of surplus Federal property should have a way of obtaining clear title to that property in exchange for paying a greater share of the fair market value. This would allow those recipients to reuse the property in conformance with changing local conditions and avoid the current situation where such changes could result in the

title to the property reverting to the Federal Government.

We also expect to propose several less dramatic improvements in the Property Act that would affect the management and disposal of personal property.

Taken together, the changes being proposed in the Property Act by GSA and the proposals by DoD and VA to enhance their existing authorities would give all agencies the ability to manage their real and personal property assets more effectively. If enacted, we expect that these new authorities would result in agencies making the changes necessary to get rid of their underutilized and unneeded real property assets and reinvest the proceeds in more productive investments. All in all, these changes represent a fitting way to celebrate the 50<sup>th</sup> birthday of the Property Act.

Thank you for the opportunity to submit this statement. With the help of your Committees and the Congress as a whole, we can build the foundation for a new era in the management of our Federal real property assets.

QUESTION FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999

Question No. 1

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FACILITIES MANAGEMENT RELATED TO MISSION

Question: According to your testimony, facilities management is closely tied to your mission. How do you create a direct link from facilities to mission?

Mr. Yim. Facilities include the runways and piers from which our forces deploy and fight, the ranges and classrooms where our troops train, the hangars and shops where they maintain the planes, tanks and other equipment for warfighting, the housing and hospitals that serve our military members and their dependents, and the warehouses and transportation networks to supply and move our troops. The right amount of facilities that are properly sized and maintained support the military mission. Insufficient and deteriorated facilities undermine military readiness. A cracked runway can halt training and put mobilization at risk. Undersized maintenance shops that lack state-of-the-art equipment can add to the time that it takes to overhaul a troop carrier and therefore, the downtime of the vehicle. Facilities are critical to a military unit's readiness and its ability to operate and mobilize its forces as well as house and train its members.

**QUESTIONS FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

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**Question No. 2**

**UTILITY PRIVATIZATION**

Question: How much will you save by privatizing electric, water, wastewater and natural gas systems? Will you eventually privatize asset management?

Mr. Yim: When the Services transfer ownership of these systems to a utility provider, the Services will in turn purchase complete utility services to include cost of operations, maintenance, rehabilitation, and technological or environmental upgrades. Ultimately, however, as the provider brings the utility system up to industry standards, the Department of Defense will have more efficient and reliable systems. Despite the potential for a higher unit cost, this higher efficiency added to the elimination of maintenance and construction costs should result in savings to the Department.



QUESTION FOR THE RECORD  
HOUSE ON TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
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APRIL 29, 1999

Question No. 3

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UNDERUTILIZED FACILITIES

Question: Are there other uses in either the public or private sector for your underutilized facilities? If so, what are some examples? Do you ever retain ownership? What is the process to excess a facility?

Mr. Yim: Yes there are other uses for our underutilized facilities. The Department can make underutilized land and buildings available to the private sector to help satisfy mission requirements that cannot otherwise be met from direct appropriations due to limited budget authority. Examples of projects undertaken by the private sector using underutilized DoD facilities include family housing, classrooms, visitor lodging facilities, warehouses, vehicle test tracks, wind tunnels for parachute training, administrative/office space, maintenance facilities, etc. Because we are dealing with non-excess property, in all instances the Department would retain ownership of the land and or facility and lease it to the private sector on a long-term basis. The term of the lease depends upon the type of project envisioned and the associated business plan.

The Federal Property and Administrative Services Act of 1949 (FPASA) details the process for the disposal of excess property. When the Secretary of a Military Department determines that it has property it no longer needs, it makes that property available to the other Military Departments. Assuming there is no further DoD requirement for the real property, DoD formally declares it as excess to the needs of DoD and transfers it to the General Services Administration (GSA) for disposition. GSA then performs a formal screening with all other Federal agencies to determine if there is a further Federal need for the property. Federal agencies have 30 days to notify GSA of their interest in the excess property. In the event that no other Federal agency establishes a requirement for the property, GSA determines that the property is "surplus" which means it is no longer required for the needs and the discharge of the responsibilities of all Federal agencies. GSA then appraises the property and develops a disposal plan. Should the property become available for sale to the general public the proceeds from sales of property formerly held by a Military Department, less the administrative costs incurred by GSA in the sale of the property, are deposited in a special treasury account and, subject to appropriation, returned to DoD for specified uses. Most other Federal agency proceeds are deposited in the Land and Water Conservation Fund to reduce the Federal deficit.

**QUESTION FOR THE RECORD  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

**Question No. 4**

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**AVERAGE AGE OF FACILITIES**

Question: What is the average age of your facilities? What is the average of the facilities you're closing?

Mr. Yim. The average of DoD facilities is about 40 years old. As for closing facilities, we don't track that statistic. The individual facilities the Department is demolishing tend to be older and in very poor condition. Closing bases would have a variety of facilities from fairly new to very old.

QUESTION FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999

Question No. 5

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OUTLEASING

Question: On page 8 you note three key components to effective outleasing of government property. Could effective outleasing take place without all three of these components? Is this the same as enhanced use leasing? Are there additional elements with enhanced use leasing?

Mr. Yin: An effective outleasing program requires all three elements to be successful. With the incentive to enhance both the working and living environment at military bases in place, base commanders will pursue more outleasing opportunities. Likewise, the private sector will be more receptive to leasing underutilized military property because the Department will be able to structure lease terms to accommodate the business plan and will have more flexibility to negotiate various types of consideration other than traditional cash proceeds. With all three elements in place, DoD can take a huge step toward better utilization of existing real property assets and create an entrepreneurial environment that results in better quality facilities for people to live and work.

Enhanced use leasing is a term that originated with the Department of Veterans' Affairs program. Because the DoD outleasing program and the Veterans' Affairs enhanced use leasing program have the same objectives, the term enhanced use leasing could be used to describe the DoD outleasing program.

**QUESTION FOR THE RECORD  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

**Question No. 6**

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**DEFENSE FACILITIES STRATEGIC PLAN**

Question: What is a Facilities Strategy Plan? Who puts it together?

Mr. Yim. The Defense Facilities Strategic Plan provides a framework for organizing the Department's many facility-related initiatives. It describes a vision for facilities as well as specific goals, and ties ongoing and planned initiatives to those goals. It is put together by a cross-department Working Group.

**QUESTION FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
OVERSIGHT OF FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

**Question No. 7**

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**QUANTIFYING BASE CLOSURES IN 2001 AND 2005 BRAC ROUNDS**

Question: How many properties does the DoD contemplate closing in 2001 and 2005?

Mr. Yim: The 1997 Quadrennial Defense Review found that the Department has enough excess base capacity to warrant two additional rounds of BRAC similar in scale to those of 1993 and 1995.

Additionally, in an analysis completed in April 1998, the Department estimated that the amount of excess base capacity is sufficiently large (approximately 23 percent when compared to 1989 force levels) to justify authorization of new BRAC rounds. The analysis used to arrive at these results, however, cannot predict the exact number of potential closures or realignments in each category of installation, since it does not compare base capacity with absolute requirements for that category.

The Department assumed that each of the proposed future rounds should approximate the average experience of BRAC 93 and BRAC 95 to notionally determine the potential costs, savings and size of two future rounds. Bases remaining after the BRAC 88 and BRAC 91 rounds were more complex to analyze and costly to close, which we envision will more closely mirror our future decisions.

The Commission recommended 28 major closures for BRAC 93 and 27 major closures for BRAC 95. However reasonable these estimates may be, only a detailed BRAC analysis can fully answer your question.

**QUESTION FOR THE RECORD  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

**Question No. 8**

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**DEMOLITION**

**Question:** Mr. Gregory mentioned using demolition as an option for disposal. Has DoD considered using demolition of obsolete facilities?

**Mr. Yim.** Yes. The Department established a demolition initiative in 1997. The goals for the initiative are published in the May 1998 Defense Reform Initiative Directive #36. The Department is on track to demolish 80 million square feet during the period FY 1998-2003. At the same time, the military services and defense agencies continue to identify additional candidates for demolition or disposal in the post-2003 period.

QUESTION FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
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OVERSIGHT OF FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999

Question No. 9

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DETERMINING DoD EXCESS BASE CAPACITY

Question: How did you determine that DoD has 23 percent excess base capacity? What was the methodology?

Mr. Yim: The analysis in the April 1998 "Report of the Department of Defense on Base Realignment and Closure" uses 1989 as a benchmark and measures the increase in excess capacity that will occur by 2003 relative to that benchmark. Because most closures and realignments were implemented after 1989, many categories of bases had excess capacity in 1989.

The Department first determined the excess capacity of 33 different installation categories spread across the three Military Departments and the Defense Logistics Agency, as represented by 259 major installations identified by the Military Departments. The 259 major installations are distributed among the Armed Forces as follows: 74 for the Army; 103 for the Navy and Marine Corps; 76 for the Air Force; and, 6 for DLA. For each category, we first defined a yardstick or indicator of capacity (such as maneuver base acres, facility square feet, etc.). Some categories had two yardsticks. Using these yardsticks, we developed a metric or ratio that expresses an indicator of 1989 capacity by dividing the yardstick by a 1989 relevant measure of U.S.-based force structure (maneuver brigades, personnel assigned, etc.). Where we had two yardsticks, we developed two metrics to demonstrate an upper and lower estimate of capacity.

Next, we developed a proportional capacity of the future by multiplying this 1989 metric value by the post-QDR force structure measure for 2003 for each of the categories, thereby keeping constant the ratio of capacity to force structure that existed in 1989. Then we estimated the increase in excess capacity by subtracting the future proportional capacity from the amount of capacity that will exist after BRAC 95. Finally, we determined the excess, as a percent of 2003 capacity, by dividing this increase in excess capacity by the amount of capacity that will exist after BRAC 95.

For each Military Department and DLA, the excess, as a percent of 2003 capacity, was aggregated (using weighted averages based on the number of 2003 bases remaining after BRAC 95) to identify a range of excess capacity. The data was aggregated further to estimate excess capacity across the Department, which are approximately 23 percent.

**QUESTION FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

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**Question No. 10**

**UTILITY PRIVATIZATION**

Question: You mention privatizing utility services - is there a national security concern about privatizing a commodity so essential to the working of the military? Telecommunications is especially sensitive.

Mr. Yin: Our policy guidance specifically exempts systems from privatization when there would be security implications.



**QUESTION FOR THE RECORD  
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

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**Question No. 11**

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**UTILITY PRIVATIZATION**

Question: Please explain the logic of using millions of dollars to upgrade utility facilities prior to conveyance to the private sector.

Mr. Yim: There are two primary reasons money would be spent on facilities prior to conveyance. The first is to comply with environmental laws. If a utility does not meet current environmental restrictions, the law requires that it be clean prior to transfer. The second reason to spend money on a utility prior to conveyance is if it makes economic sense. In some situations there is previously programmed money that can be spent in order to increase the negotiating power of the Service in the conveyance of the utility. This up front expenditure will actually give the installation better utility service while adding to the price the Department can expect to receive for the conveyance.

**QUESTION FOR THE RECORD**  
**HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE**  
**SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,**  
**HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION**  
**FEDERAL REAL PROPERTY MANAGEMENT**  
**APRIL 29, 1999**

Question No. 12

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**RETENTION OF PROCEEDS**

Question: You mention three incentives to effective outleasing of government property. 1. Lease terms should reflect the business plan, 2. Broad use of proceeds, and 3. Incentives to outlease property - Does the DoD have authority to retain proceeds and invest them to meet other capital needs?

Mr. Yim: Section 2667 of Title 10 authorizes the Secretaries of the Military Departments to lease non-excess property that is not for the time needed for a public purpose. The Military Department must receive fair market value for the property leased which can take the form of cash or specified in-kind services ("improvement, maintenance, protection, repair, or restoration . . . of the property leased"). The cash proceeds from these leases are, with minor exceptions, deposited into a special treasury account that is available, subject to appropriation, for maintenance and repair and environmental restoration. At least fifty percent of the proceeds must be used at the installation where the leased property is located, while the remaining amount is available Department-wide.

**QUESTION FOR THE RECORD  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS,  
HAZARDOUS MATERIALS AND PIPELINE TRANSPORTATION  
FEDERAL REAL PROPERTY MANAGEMENT  
APRIL 29, 1999**

**Question No. 13**

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**JOINT USE**

**Question:** You mention the potential for increasing "joint use" of DoD facilities. Joint use with other military entities or joint use with the private sector?

**Mr. Yin:** There is room for improvement in joint use in both areas, between the military entities within the Department of Defense and in public-private partnerships. A cross-department working group was just established to explore internal DoD joint-use. Exploring opportunities for joint use with private sector entities is ongoing and would be enhanced if changes to DoD's out-leasing authorities are enacted as envisioned in a soon to be released DoD Report to Congress on Enhanced-use Leasing.

**Questions for the Record  
Concerning the April 29, 1999, Hearing**

**for  
Dr. Thomas L. Garthwaite  
Acting Under Secretary for Health  
Department of Veterans Affairs**

**from  
The Honorable Bob Franks  
Chairman, Subcommittee on Economic Development  
Public Buildings, Hazardous Materials and Pipeline Transportation  
Committee on Transportation and Infrastructure  
U. S. House of Representatives**

1. You state on page 2 of your testimony that you own or lease 140 million square feet of space. How much of this is vacant?

**Answer:** Approximately 4% (about 6 million square feet) of the total space is vacant.

2. Would you elaborate on the Capital Assets Realignment for Enhanced Services Steering Committee? Are any real estate people or facilities managers on this Committee?

**Answer:** In examining the delivery of VA health care in the next century, it is clear that in numerous locations, VA facilities and other capital assets are not well aligned with the location or needs of veterans. The Capital Assets Realignment Enhanced Services Steering Committee is part of a strategic planning process aimed at realigning imbalances or inequities between VA capital assets and veterans' needs. While overall guidance and direction for this program will be given at the Headquarters level, this process will be undertaken at the regional level through each "Veterans Integrated Service Network ("VISN").

The process provides for the creation of a Capital Assets Realignment for Enhanced Services (CARES) Steering Committees at each VISN to assure appropriate stakeholder participation in planning for capital assets. These planning efforts will be linked to the VISN's business plan. These efforts will include the following elements:

- A review of historical, current and projected service utilization and demand for veteran health care services throughout the VISN and its constituent medical facilities;
- A review of current VISN capital assets in terms of their ownership, location,

services provided, physical condition, convenience of access, repair requirements and similar characteristics;

- A review of the congruence between current capital assets and the VISN's current and future projected demand for services;
- Consideration of alternatives to current service delivery modes that may enhance services to veterans.

This planning process will be open and broadly inclusive of VA stakeholders and VA health plan users. Likewise, to help ensure objectivity and impartiality of the process, assistance from knowledgeable outside and independent consultants is considered essential. Membership in the CARES Steering Committee will be selected by each VISN Director. Although membership by facility or real estate managers is not mandated, their participation and their expertise would be included as appropriate.

3. How do you tie your capital asset planning/management to your core mission?

**Answer:** Each VISN must prepare a Network Capital Asset Plan annually.

Each plan includes a Capital Investment Proposal Application for projects that exceed specific dollar thresholds (e.g., \$4 million for infrastructure). The application includes specific examples of statutory requirements, operating strategies and performance goals identified in VA, VHA and Network Strategic plans that demonstrate how the proposed capital investment will support core mission functions. VHA is currently developing similar requirements for demonstrating how projects costing less than \$4 million support core mission functions.

4. On page 4, you say the second Baseline Assessment that describes the extent that existing capital assets are helping the network to achieve goals, management strategies, operating strategies and performance goals.

a. How do you quantify this?

**Answer:** Each Network plan contains a detailed description (e.g. programs, workloads, etc.) of its facilities' missions which is updated annually to include any changes based on facility consolidations, facility integrations, closure or establishment of a major inpatient service, closure or establishment of an outpatient clinic, and substantial increase or decrease in treatment capacity for any of six special programs (spinal cord injury/dysfunction, blindness, amputations, serious mental illness traumatic brain injury or PTSD).

These plans also include information about contracting for medical and ancillary care within the VISN. Three sets of data (best practices, narrative statements and spreadsheets) are used to convey the information. The information supplied includes the various categories of contracts for clinical and ancillary services, current year actual costs for each and estimated next year costs.

The Network Capital Asset Plan uses the above type of information to describe the current capability of existing capital assets.

**b.** How is this coordinated nationwide?

**Answer:** The VA coordinates planning for capital assets exceeding established dollar limits (thresholds) as part of the VA Capital Investment Board (VACIB) review process. In this detailed review process, appropriate VA Headquarters offices scrutinize justifications for all capital asset proposals before they are submitted for VACIB evaluation. If analyses developed for any capital asset proposal do not effectively demonstrate how the capital asset will help the Network achieve management strategies, operating strategies and performance goals, Headquarters returns the proposals for revision, with specific recommendations on what is lacking and what is needed for the proposal to be acceptable. VACIB prioritization of submitted capital asset proposals is the final step in the nationwide coordination.

**5.** Explain the performance gap.

**Answer:** In developing the Network Plans, each facility develops projected workloads (bed levels, outpatient visits, etc.) for each of its programs to determine future program needs to meet projected performance goals. Each facility then compares its projected needs with the capabilities of its existing capital assets. The difference between existing capital asset capabilities and projected future capabilities needed is the performance gap for each facility.

**6.** What kind of inventory system do you use for real property?

**Answer:** VA uses a variety of real property inventory and asset management systems including its own Capital Asset Review, a system-wide survey conducted by VA Headquarters using data provided by the 22 VHA Networks, and a GSA designed system called FIRM (Foundation Information for Real Property Management), an automated real property asset management system providing agencies with real property information.

**7.** What criteria does the Capital Investment Board use for prioritizing projects?

**Answer:** There are seven major criteria, some with sub-criteria, that the Capital Investment Board uses to prioritize capital asset proposals:

**Customer Service:** One-VA Concept, Increase in Quality, Reduction in Waiting Time, Increase in Customers (Internal or External), Increase in Benefits or Service, Improvement in Customer Access (Internal or External)

**Return on Taxpayer Investment:** Reduction in Cost Per Customer, Number of Customers affected (Internal or External), Cost Effectiveness

**High Performing Work Force:** Recruitment and Retention, Training and Development, Morale

**Life/Safety Threat Mitigation:** Seismic, Life Safety Code

**Special Emphasis Programs:** Spinal Cord Injury, Mental Health, Blind Rehabilitation, PTSD, Amputations

**Risk:** Risk of not Meeting Projected Benefits, Risk of not Meeting Projected Project Costs, Implementation Risk, Risk of Technical Obsolescence

**Comparison to Alternatives:** Build, Lease, Contract and other options

**8. What tools does the VA have to reduce costs and examine alternative-funding sources that could directly benefit VA's mission? Explain each?**

**Answer:** The Department relies on several tools to assist in acquiring and managing its capital inventory. Briefly, in the context of capital asset planning, the Department closely follows the principles in the OMB "Capital Programming Guide" for any proposed capital investment in terms of analyzing such proposal in light of other alternatives including non-capital alternatives. Approved projects are then submitted to OMB as part of VA's request for budget and authorization consideration. This process is detailed in the April 29 written statement by Dr. Garthwaite.

From an asset management perspective, the April 29 written statement by Dr. Garthwaite outlined the Department's use of its outleasing authority and its enhanced-use leasing authority as available tools to maximize the use of its resources. Other authorities which the Department has successfully used are the "Enhanced Health Care Resources Sharing Authority" ("shared services") found in 38 U.S.C. Section 8153 and the "Department of Veterans Affairs and Department of Defense Health Resources Sharing and Emergency Operations Act codified in 38 U.S.C. Section 8111. Through the shared services authority, the Department can either enter into contracts with other entities in the private or public sector for the use of VA space or equipment, or provide any kind of service related to the operation of a health care system. The VA-DOD sharing program enables both Departments to share hospital-related services and in a number of locations, VA and DOD jointly operate hospital facilities.

9. Could you elaborate on the Pilot Asset Disposal program?

**Answer:** This proposal would allow VA to dispose of excess and underutilized property (including land, structures or any equipment associated with the property) by sale, transfer, or exchange, and retain 90 percent of the proceeds to fund further disposal activities and VA infrastructure needs. (10 percent of the proceeds would be transferred to the Department of Housing and Urban Development's Homeless Assistance Grants Housing account.) The pilot would be restricted to 30 dispositions over its five-year life.

As currently structured, disposal is a cumbersome process, with limited benefits to VA. For example, to dispose of property with an estimated value over \$50,000, the asset must first be reported to Congress in an annual budget submittal. Then VA must transfer the surplus property to GSA for disposal. Before GSA can attempt to sell the asset to the private sector, it must offer it to other Federal agencies, then to State, local and qualifying non-profit organizations. Disposals must also comply with the Stewart K. McKinney Homeless Assistance Act, which requires excess property to be offered to homeless organizations. GSA is also authorized to offer discounts of up to 100% to public and non-profit institutions. Should any proceeds be realized by VA after covering GSA's expenses of the disposal, these are required to be deposited into the Nursing Home Revolving Fund. These monies can then only be used to build nursing homes -- not a current priority need.

VA further supports a reporting requirement that would inform Congress at the end of the pilot of its disposals pursuant to the program. The report would address the pilot's impact, if any, upon the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. § 11411), the California Desert Protection Act of 1944 (16 U.S.C. § 410aaa-77), and the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, 110 Stat. 1023).

10. You mentioned on page 2 "a large percentage of the Department's assets are devoted to providing health care to the nation's veterans". What is the percentage? How much general purpose office space does the VA occupy?

**Answer:** According to the Capital Asset Review survey, over 90% of all space under the control of VA is devoted directly to, or in support of, patient care. VA owns and leases approximately 4.6 million square feet of general-purpose office space primarily for VA Regional Benefit Offices.

11. There has been much discussion recently about opening up under capacity VA hospitals to local area residents who need access to health care. How does your strategic planning process deal with that issue?

**Answer:** In addition to identifying "performance gaps", the baseline assessment and future needs assessment performed as part of the strategic planning process



might identify facilities that have an under capacity in certain program areas. As part of their Network plan, Networks can perform a market analysis to determine if there is sufficient unmet need in the community for those under capacity services and determine if entering into sharing arrangements for those services will improve services for veterans.

**12.** What percentage of your property is below the \$4 million construction threshold?

**Answer:** VA has not prepared a comprehensive inventory of properties to be considered for disposal. Nor has VA undertaken real estate appraisals to ascertain the value all possible candidate properties found in our real property inventory of over 4,000 buildings and 22,000 acres of land.

**13.** How did the VA obtain its Enhanced Leasing Authority?

**Answer:** The opportunity to increase the value or use of under-used assets was recognized by VA and Congress. With the leadership of the House Veterans' Affairs Committee, Enhanced-Use Leasing Authority was enacted in 1991 as Title IV of Public Law 102-86.

**14.** How does the Enhanced-Use Authority allow the VA to get involved with energy plants and parking garages, and child development centers?

**Answer:** The Enhanced-Use Leasing Authority enables the Secretary to lease available VA-controlled property to private or public entities for their use (provided such uses are compatible with VA operations) in return for fair consideration. The consideration can be either in cash or in kind (facilities, services, space, equipment, etc.). VA has used this authority when the consideration provided to VA fulfills a defined VA mission or program requirement. For example, rather than continuing to operate an obsolete facility or purchasing a new energy plant to obtain necessary steam or chilled water, the Department would enhance-use lease available property to an energy provider/lessee who would finance, construct and operate a facility that would serve both VA and non-VA users. The consideration to VA for the ground lease is a discount in VA purchase of its energy requirements. While the leasing arrangement binds the lessee to specific discounts and rent, it does not legally commit the Department to purchase any minimum amounts beyond a two-year period. The lessee's right to use the property for 35 years and its projected revenues from the market (non-VA and VA) opportunity secures the private sector investment. The VA market risk is borne by the lessee, as there is no VA guarantee beyond the initial two-year term. The result is that the Department significantly lowers its energy costs, achieves federally mandated energy efficiencies, avoids capital expenditures as well as long-term financial commitments and is able to redirect annual operational funds to direct health care services, its core mission.

The Department has also been able to engage in similar arrangements for on-site child/elder care for its employees with a caveat that such leases do not provide for any VA expenditure of capital or operational funds. Nor does it commit to any purchase of services. The consideration to the Department for the enhanced-use lease mandates that the provider give priority placement and enrollment discounts to VA employees. On-site child care services improves employee retention and enables the Department to keep and recruit highly skilled staff. This type of arrangement applies to parking garages for veteran patient and employee parking. In all of these instances, the Department's objective was to use enhanced-use leasing to obtain these services so as to maximize its ability to use appropriated dollars for direct veteran services.

**15.** Regarding your Capital Asset Fund – Do you have a list of properties ready for disposal? And an estimated value? Does the VA do appraisals on its properties?

**Answer:** As previously stated, VA has not prepared a comprehensive list of properties ready for disposal. The establishment of the CARES Steering Committees is, in fact, seen as establishing a foundation and process for the strategic planning and management decisions necessary to formulate such a list. Accordingly, no estimated values are available. Due to changes in the real property markets and the relatively short "shelf-life" of property appraisals, VA currently appraises property only in connection with a particular disposal or acquisition action.