

GAO

Testimony

For Release
on Delivery
Expected at
9:30 a.m.
Wednesday
October 30, 1991

Real Property Management Issues
Facing GSA and Congress

Statement of
L. Nye Stevens, Director
Government Business Operations Issues
General Government Division

Before the
Subcommittee on Investigations and
Oversight
Committee on Public Works and Transportation
House of Representatives



REAL PROPERTY MANAGEMENT ISSUES
FACING GSA AND CONGRESS

SUMMARY OF STATEMENT OF
L. NYE STEVENS
DIRECTOR, GOVERNMENT BUSINESS
OPERATIONS ISSUES

With over 400,000 buildings that cost hundreds of billions of dollars, the federal government has a huge investment in an enormous inventory of real property assets that were acquired to support federal agencies' missions. They are under the custody and control of various federal agencies and overseen by various congressional committees and subcommittees.

As generally practiced in the past, real property management focused primarily on housekeeping tasks, such as acquiring, cleaning, maintaining, repairing, and safeguarding space. The objective was to satisfy basic space needs at the least cost. Today, however, there is growing recognition that quality workspace enhances agencies' performance and employees' productivity. Also, changing work concepts and styles brought about by new information and telecommunications technologies and capabilities have changed the nature of how federal agencies function and thus federal workspace requirements.

Ever since GSA's establishment in 1949 to bring central direction to the government's essential housekeeping functions, the agency has been torn between an internal dynamic that emphasizes a centralized approach to service delivery and a largely external expectation that its primary role should be to provide central leadership, policymaking, and oversight of decentralized operations within the federal agency community. Because of delegations of day-to-day buildings management and lease administration responsibilities to federal agencies, staffing reductions, and other factors, GAO believes that GSA needs to concentrate on its envisioned central management agency role and leave operations up to tenant agencies.

GAO's work has identified several major reasons why GSA has not effectively fulfilled its intended central management role in the real property management area or been successful in acquiring and managing such assets in a more cost effective, businesslike manner. Some of these reasons for GSA's ineffectiveness are within its direct control but others are not. Those under GSA's direct control are its predilection towards operations and its lack of a strategic approach to asset management. Those beyond GSA's direct control are the government's decentralized management of real property, funding shortfalls, the current federal budget structure, and the existing congressional authorization process.

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to appear before you today in connection with your oversight of the General Services Administration's (GSA) public buildings activities. My testimony summarizes our perspective on federal real property management, the role GSA should play in that process, and the principal reasons why GSA has been unable to acquire and manage federal real property assets in a more cost effective, businesslike manner.

As the attachment to my statement shows, we have reported on GSA's general management practices and various aspects of its public buildings activities in a series of reports and testimonies over the past 3 years. Also, we have work underway addressing other aspects of the federal government's management of real property assets in general and GSA's management activities in particular. My remarks today are based on that body of work.

REAL PROPERTY MANAGEMENT

As generally practiced in the past, real property management focused primarily on housekeeping tasks, such as acquiring, cleaning, maintaining, repairing, and safeguarding space. The objective was to satisfy basic space needs at the least cost.

Over the last decade, however, this focus has shifted. There is now a recognition that the condition of buildings and the utility, quality, and design of equipment and space arrangements affect workplace atmosphere, productivity, and the ability of federal agencies to achieve mission objectives. Private sector corporations as well as the government are beginning to recognize that their investment in facilities should be expected to contribute a return for the bottom line and mission accomplishment.

Today's changing attitudes, expectations, work concepts and styles, and new technologies that are being introduced into the workplace are placing new and greater demands on facilities managers. These changes are leading to even greater shifts in responsibilities, work concepts, and relationships between coworkers and among working groups. The rapid spread of information and telecommunications technologies and capabilities will further accelerate changes in work distribution and workplace location policies and practices as well as existing building and building systems needs.

Facilities and other real property are valuable but undermanaged national assets that are an integral part of carrying out federal operations. They have great potential and should be viewed and used as management tools to support federal policies and achieve work objectives. Accordingly, the federal government's real

property objectives should be to ensure that (1) real property assets are strategically acquired and managed, (2) they are used more efficiently and effectively to support mission objectives, and (3) taxpayers' return on their existing and prospective investment in them is maximized.

GSA'S CENTRAL MANAGEMENT ROLE

The 1949 Commission on the Organization of the Executive Branch of the Government, known as the Hoover Commission, recommended establishment of an Office of General Services with regulatory authority and a direct link to the President to bring central direction to the Government's essential housekeeping functions, including operations and maintenance of public buildings. It envisioned this office as primarily, but not exclusively, a policymaking body that to the greatest extent possible would delegate operational authority for building functions to other agencies, subject to established policies, central oversight, and comprehensive accountability to Congress for efficiency and economy.

Ever since its establishment in 1949, however, GSA has been torn between an internal dynamic that emphasizes a centralized approach to the direct delivery of services to customer agencies and a largely external expectation that its primary role should be to issue governmentwide policy guidance and oversee

decentralized operations within the federal agency community. The latter view is generally supported by the agencies themselves, the Office of Management and Budget (OMB), and us, although some previously appointed Administrators, such as Terence C. Golden who served from June 1985 to March 1988, have also supported it. Over the years, the net result has been a sharp reduction in GSA's employment levels. The Public Buildings Service has gone from over 18,000 employees in 1978 to about 9,400 employees today.

GSA's real property management role has evolved in two ways. First, Executive Order 12512 dated April 29, 1985, directed GSA to assume a greater governmentwide role in overseeing real property asset management. It reflected the Reagan Administration's broad policy of decentralizing responsibilities to federal agencies for the buildings they occupy and reducing the operational role of GSA. In this regard, the Order directed GSA to delegate its building operations responsibilities to tenant agencies where "feasible and economical". Second, as a result of GSA's delegation of its day-to-day buildings management and lease administration responsibilities to federal agencies-- for about 2,000 of its 6,600 buildings--GSA must now provide governmentwide guidance for and oversight of functions tenant agencies now do for themselves (or contract for) that GSA previously did for them.

Collectively, building delegations, staffing reductions, increasing customer agency demands, and changing work technologies and concepts dictate that GSA recognize that its traditional predilection for direct operations must become secondary to strategic leadership. GSA should not operate directly all the support services federal agencies need to accomplish their missions. Instead, GSA's role should be to set governmentwide policy, provide effective and comprehensive oversight, and operate activities only where it makes sense to do so and is cost effective to have a central agency involved. This would allow GSA to devote more of its resources and expertise to broader policy issues, such as facility acquisition, location, use, repair and modernization, and disposal decisions and the proper mix of federally owned and leased space, that have significant long-term consequences for federal assets, federal agencies' mission accomplishment, the Federal Buildings Fund, and taxpayers. GSA's future in the public buildings area hinges on how well it responds to this role and its ability to help agencies work more efficiently and effectively.

We support the concept that most federal agencies are capable of working with the private sector to operate and maintain the facilities they need to accomplish their missions. We also believe that tenant agencies are in the best position to determine the adequacy of their work environments and to assure that their buildings and building systems are operated and

maintained in a manner that is consistent with the agency's operational priorities and contributes to improved employee satisfaction and productivity. In this regard, delegated agencies overwhelmingly believe that the quality and responsiveness of building services have improved under delegation.

This does not mean that there is no need for a central management agency. On the contrary, decentralized real property operations require strong leadership, a long-term strategy, common policies, consistent and knowledgeable guidance from market and technical specialists, coordination to prevent competition among agencies, and comprehensive reporting and oversight so that Congress can hold the Executive Branch accountable for efficient and effective performance.

ASSESSMENT OF GSA'S PERFORMANCE
AND OTHER MANAGEMENT OBSTACLES

On the basis of our completed and ongoing work in the real property management area, we derived what we believe are the principal reasons why GSA has not effectively fulfilled its intended central management role or been successful in acquiring and managing federal buildings and other valuable real property assets in a more cost effective, businesslike manner. Some of the reasons for GSA's ineffectiveness are within its direct

control but others are not. Those under GSA's direct control are its predilection towards operations and its lack of a strategic approach to asset management. Those beyond GSA's direct control are the federal government's decentralized management of real property assets, funding shortfalls, the current federal budget structure, and the existing prospectus authorization process.

GSA's predilection toward operations

GSA's continued predilection towards operations, at the expense of its central management leadership, policymaking, and oversight responsibilities, has prevented it from effectively fulfilling its envisioned role. Its preoccupation with retaining as much of its direct real property operational responsibilities as possible is, in our view, a root cause of its reluctance or inability to tackle its admittedly more challenging policymaking and oversight responsibilities. More and more tenant agencies and their congressional overseers are perceiving their space as well as GSA's facilities management to be detrimental to their mission accomplishment and are attempting to go it alone. Out of frustration, they are chipping away at GSA's public buildings authority. For example, the Pentagon has broken away from GSA and the courts are making a serious bid to follow.

GSA's management and oversight of building repair and modernization requirements offers a good illustration of its

overly narrow view of its public buildings role. Our May 1991 report on GSA's efforts in this area concluded that, although not as bad as the Pentagon, other federal buildings have been neglected and also need major repairs and modernization to bring them up to acceptable quality and functional standards. We emphasized that the failure to complete needed building repairs and modernization not only decreases the value of federal assets and costs the government more money in the long run, as the Pentagon's needed \$1.2 billion renovation illustrates, it contributes to poor quality working space, impedes federal agencies' mission accomplishment, and in some instances jeopardizes federal employees's health and safety. We made several recommendations to GSA that were aimed at (1) improving its management and oversight of building requirements, (2) targeting the most critical buildings, and (3) promoting more informed congressional oversight and decisionmaking.

Although GSA agrees that many federal buildings need improvements and modernization, its unwillingness to accept any responsibility for the physical deterioration or functional obsolescence of federal buildings that occurred under its stewardship and its narrow view of its leadership role in this area illustrate the absence of a central management agency perspective. GSA believes that its primary responsibility is to keep federal buildings open and operational. As we said in our report, that is simply not good enough. Finally, GSA's action plan to address our

recommended management improvements, even if fully executed, would not correct the building conditions and resulting consequences we reported.

To date, GSA has not responded effectively to its changing facilities management role and has had difficulty balancing its concurrent policymaking, oversight, and centralized governmentwide service delivery roles. The "strategic plan" GSA adopted in January 1990 for its public buildings activities was heavily oriented toward the need to improve the quality and responsiveness of its building services to customer agencies, and GSA has made this a top agency priority. However, GSA's plan does not adequately recognize its central management role.

Compounding GSA's lack of a central management perspective are pervasive management information deficiencies that seriously impede its ability to manage and oversee public buildings effectively. Many of GSA's information systems supporting public buildings activities are obsolete, inaccurate, and/or unreliable. Consequently, they do not permit forward thinking or informed decisionmaking. For example, our November 1989 general management report pointed out that GSA's senior executives were not getting the program, financial or accounting data they needed to do strategic planning, assess progress toward agency goals and objectives, analyze and forecast trends, exercise effective control over the agency's multifaceted activities, or fulfill

other central management agency responsibilities. Similarly, our May 1990 building delegation and May 1991 building repair and modernization reports documented similar management information deficiencies that adversely affected GSA's ability to manage and oversee those activities. GSA recognizes that its existing 20-year-old public buildings information system is inadequate and has targeted the system for replacement. However, the replacement system is several years away.

GSA's lack of strategic focus

GSA still lacks a strategic concept of its public buildings role and continues to operate with a regionally based project-by-project philosophy. GSA's lack of strategic thinking, planning, analysis, and organizational structure (1) prevents it from fulfilling its intended central management role, (2) hampers congressional oversight and decisionmaking, and (3) provides no assurance that scarce capital investment resources are spent wisely. Its previously mentioned "strategic plan" for public buildings activities falls woefully short of providing a strategy for addressing critical governmentwide policy and oversight issues, such as how to manage the government's real estate portfolio to better integrate people, information technology, and facilities to make the workplace more productive and more responsive to federal agencies' missions.

Each year GSA presents OMB and Congress with dozens and dozens of prospectuses for building leases, construction, and repairs and modernization but fails to put them in any long-term, strategic context. Consequently, GSA lacks a strategy that relates individual projects to such strategic questions as the impact of new information technology and work concepts on agency location decisions, the consequences of and alternatives to centering federal activities in the highest cost labor markets in the country, the relative advantages of owning versus leasing office space, and the impact that impediments to selling surplus or obsolete buildings have on ownership decisions.

GSA agrees that it needs to improve its strategic focus and planning and is currently working with OMB to develop a 5-year capital investment plan. However, GSA's efforts to date have been disappointing. In commenting on a draft of GSA's 5-year capital plan earlier this year, OMB said that it appeared to be more of a listing or inventory of needs than a well thought out, supported strategic plan. OMB characterized GSA's draft plan as a list of projects, alphabetized by state but with no criteria for setting priorities among the most cost effective or cost beneficial capital investment projects. Similarly, GSA is unable to tell OMB or Congress the relative return on investment from a dollar spent on modernizing a building in San Francisco, constructing a building in Houston, or renting a building in New York, taking into account that the cost of building leases among

these cities varies from \$7 to \$61 per square foot. Since there is no clear rationale for GSA's list of needed projects, alternative lists seem just as defensible. This makes GSA vulnerable to the imposition of short-term demands and encourages OMB and individual Members of Congress to substitute their own priorities.

An important impediment to increased ownership of federal buildings is the difficulty of releasing obsolete or unnecessary space from the government's inventory at the end of its useful life. GSA's asset acquisition and management activities are separate from its asset reutilization and disposal activities. Besides not realizing any productivity or monetary benefits from valuable but unneeded federal real estate, there are considerable costs associated with holding, managing, and safeguarding it. Such costs are in addition to the opportunity costs of not recycling or selling it. We believe there could be considerable "waste and mismanagement" associated with such property.

Decentralized management of government assets

With over 400,000 buildings that would cost hundreds of billions of dollars to replace, the federal government has a huge investment in an enormous inventory of real property assets that were acquired to support federal agencies' missions. However, there is no central governmentwide leadership, management, or

oversight of these valuable strategic assets. Instead, they are under the custody and control of several different federal agencies and overseen by various congressional committees and subcommittees with varying agendas and expectations.

In response to pressure from OMB, however, GSA is developing, in consultation with the major federal property holding agencies, a comprehensive framework for governmentwide real property management policymaking and oversight, including any legislation or regulations necessary to implement it. As an integral part of this new governmentwide framework, GSA plans to establish a new Office of Real Property Policy, apart from its Public Buildings Service and Federal Property Resources Service. The proposed responsibilities of this new Office will be to (1) take a more proactive role in governmentwide asset management and become a resource for all property holding agencies, (2) coordinate the overall management of the federal government's real property assets, (3) develop a unified legislative and regulatory agenda, and (4) organize and establish a Real Property Council, composed of the major property holding agencies, to advise GSA on policy matters. We view this new GSA office as a step in the right direction. It will force GSA to integrate its own asset management functions and, for the first time, provide an opportunity as well as a challenge to better integrate the asset management activities of the federal government as a whole.

Funding shortfalls

Historically, the Federal Buildings Fund (FBF) has not generated sufficient revenue to acquire/construct new federal buildings or accomplish all needed repairs and modernization in existing buildings. A major reason for the deficient Fund revenues is that OMB and Congress have periodically restricted the rent GSA charges tenant agencies. Since the Fund became operational in 1975, rent restrictions have reduced its revenue by about \$4 billion (in 1989 dollars). This is money that, subject to obligation limitations carried in annual appropriations acts, could have been used to finance capital investment in the federal buildings infrastructure. While OMB and Congress have discontinued the practice of mandating across-the-board rent restrictions as we recommended in our 1989 report on the need to increase the proportion of federally owned office space, Congress continues to restrict the amount of rent that the Departments of Agriculture and Transportation and the Food and Drug Administration pay GSA.

The inadequacy of Fund revenue to finance building construction/acquisition is best illustrated by recent congressional actions to supplement available revenues. Due in part to our earlier work on the need to increase the ratio of owned to leased office space, the Bush Administration in fiscal year 1990 proposed and supported the first major federal

buildings construction program in 20 years. While this proposed program has not yet been fully approved or funded, Congress (1) allowed the Fund to borrow \$1.9 billion from the Federal Financing Bank in 1990 and (2) appropriated \$1.6 billion in 1991 to allow GSA to acquire and construct several new federal buildings.

A conceptual problem with the Fund is that its receipts are not related either to the actual costs of providing space or the expected costs of long-term capital needs but rather to local prevailing commercial rents. In this regard, there are numerous (1) misconceptions about what the rental rates charged are supposed to cover and how they are determined and (2) perceived inequities concerning the relationship between rental rates and building conditions and services on a building-by-building basis. Because of continuing concerns about the adequacy and viability of the Fund financing mechanism, OMB has suggested that GSA explore modifications to the Fund as well as other potential financing options that could be more responsive to capital investment needs.

Current budget process

The federal budget process is inherently biased against public building ownership because of the unfair disadvantage ownership investments face due to the need to recognize and record total

asset costs over a relatively short period. In contrast, other costs such as building lease costs show up in the budget as much lower initially but commit the government to significantly higher long-term costs that are spread over the terms of the lease--a much longer period of time. This places ownership projects at a distinct disadvantage during budget deliberations. Consequently, GSA and Congress have typically selected the leasing option which is actually more costly over the long run.

As a major consequence of this budget bias, GSA has become increasingly dependent on costly leased office space. More and more revenue that could be used more cost effectively to finance capital investment is being siphoned off to pay spiraling annual lease costs--\$1.2 billion today and projected to rise to \$2 billion by 1994. As we first reported in December 1989, billions of dollars could be saved if the federal government owned office space instead of leasing it. GSA could realize significant savings by increasing the proportion of federally owned space and reducing its dependence on leased space. However, the continued emphasis on budget deficit reduction combined with the existing federal budget structure limit the available funding for capital construction or leasing projects. Because they require relatively large outlays in the short run, capital projects frequently are foregone to meet short-term budget restraints despite their long-term benefits. We continue to believe that

Congress should restructure the federal budget to include a capital component as we have recommended before.

Prospectus authorization process

As this Subcommittee knows, all building capital and operating projects expected to cost more than \$1.6 million require both OMB and congressional approval. To obtain this approval, GSA develops and submits to OMB and the House and Senate Public Works Committees detailed project descriptions with associated cost estimates called prospectuses.

Although the prospectus process provides useful information to Congress and OMB on the need for particular projects and facilitates oversight and financial control over major expenditures for public buildings, this process causes both GSA and Congress to think and plan on a project-by-project basis. Each prospectus stands completely on its own and does not mention other competing projects. The Public Works Committees, of necessity, consider prospectuses individually without data on total building capital investment needs or the relative priorities and cost effectiveness of competing projects. This individual transaction focus discourages strategic thinking and planning, can result in unsound, irrational spending decisions, and can increase the likelihood of undue political influence. One of the principal arguments OMB has made over the years

regarding this is what it perceives as a pervasive tendency for Congress to treat building capital investment initiatives as "pork barrel."

As an alternative to prospectuses, a comprehensive GSA strategic or capital plan could provide similar information on the need for capital projects and their potential benefits and cost savings. Since a capital plan would also include data on alternative, competing projects and identify total funding needs, it could provide a better context for making capital investment decisions. At the same time, Congress and OMB could continue to exert financial control over major expenditures through approval of both GSA's plan and its annual budget.

- - - - -

This concludes my prepared statement, Mr. Chairman. My colleagues and I would be pleased to respond to any questions.

List of Recent GAO Reports and Testimonies
Relevant to GSA's Public Buildings Activities

GSA: A Central Management Agency Needing Comprehensive Congressional Oversight (GAO/T-GGD-92-3, Oct. 29, 1991).

Long-term Neglect of Federal Building Needs, (GAO/T-GGD-91-64, Aug. 1, 1991).

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence, (GAO/GGD-91-57, May 13, 1991).

General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991).

Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach, (GAO/GGD-90-109, Sep. 28, 1990).

General Services Administration: Delegated Buildings Adequately Operated But Better GSA Oversight Needed, (GAO/GGD-90-76, May 15, 1990).

The Disinvestment in Federal Office Space, (GAO/T-GGD-90-24, Mar. 20, 1990).

Federal Office Space: Increased Ownership Would Result in Significant Savings, (GAO/GGD-90-11, Dec. 22, 1989).

General Services Administration: Sustained Attention Required to Improve Performance, (GAO/GGD-90-14, Nov. 6, 1989).

Building Purchases: GSA's Program Is Successful but Better Policies and Procedures Are Needed, (GAO/GGD-90-5, Oct. 31, 1989).

Public Buildings: Own or Lease?, (GAO/T-GGD-89-42, Sep. 26, 1989).

Budget Issues: Restructuring the Federal Budget-The Capital Component, (GAO/AFMD-89-52, Aug. 1989).

Public Buildings Service: GSA's Projection of Lease Costs in the 1990s, (GAO/GGD-89-55, Apr. 19, 1989).

Building Operations: GSA's Delegations of Authority to Tenant Agencies, (GAO/GGD-88-103, Aug. 3, 1988).

Copies of GAO testimonies and reports are available upon request. The first five copies of any GAO report or testimony are free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877**

Orders may also be placed by calling (202) 275-6241.

**United States
General Accounting Office
Washington, D.C. 20548**

**Official Business
Penalty for Private Use \$300**

<p>First-Class Mail Postage & Fees Paid GAO Permit No. G100</p>
--