

## Why GAO Did This Study

To help address challenges associated with deteriorating facilities and underused property, the Department of Defense (DOD) has pursued a strategy that includes leasing underused real property to gain additional resources for improving installation facilities. Section 2667 of Title 10, U.S. Code, provides authority to the military departments to lease nonexcess real property, subject to several provisions, in exchange for cash or in-kind consideration. According to the military services, some leases, referred to as enhanced use leases (EUL), are more complex with long terms and could provide hundreds of millions of dollars for in-kind services to improve installation facilities.

A committee report accompanying the 2011 defense authorization directed GAO to review the EUL program. This report (1) assesses the extent to which selected EULs complied with section 2667 of Title 10, U.S. Code; (2) determines to what extent the services' expectations for their EULs have been realized; and (3) evaluates the services' management of the EUL program. GAO reviewed information on the services' 17 EULs in place at the end of fiscal year 2010 and selected 9 for detailed case study.

## What GAO Recommends

GAO recommends that DOD take several actions to address EUL statutory compliance issues and EUL management weaknesses. DOD agreed with all of GAO's recommendations.

View [GAO-11-574](#) or key components. For more information, contact Brian J. Lepore, at (202) 512-4523 or [leporeb@gao.gov](mailto:leporeb@gao.gov).

## DEFENSE INFRASTRUCTURE

### The Enhanced Use Lease Program Requires Management Attention

## What GAO Found

One of the Army EULs included in the GAO case studies did not comply with the EUL authorizing statute, section 2667 of Title 10, U.S. Code. In March 2011, GAO issued a legal opinion finding that certain terms and conditions of the legal documents comprising the Army's Picatinny Arsenal EUL violated section 2667(e) and the miscellaneous receipts statute by failing to require that cash consideration be deposited into the appropriate account of the U.S. Treasury. Instead, the cash was deposited into an escrow account at a local credit union. Also, while no two EULs are identical, GAO found that the two other Army and the three Air Force case study EULs included some terms and conditions similar to those that were found to be problematic by the legal opinion, which raised questions about the extent to which such EULs also comply with the statutory requirements. Moreover, beyond those issues addressed in the legal opinion, GAO found that three Army and one Air Force case study EULs did not comply with another provision in section 2667, which requires that each lease executed pursuant to section 2667 provide that if and to the extent that the leased property is later made taxable by state or local governments under an act of Congress, the lease shall be renegotiated.

The services' expectations for EUL development timeframes and financial benefits were not realized in two Army and one Air Force EULs included in the GAO case studies largely because, according to the services, the recent economic downturn caused EUL development plans to significantly slow down or to be placed on hold. To illustrate, in the Fort Sam Houston EUL that was signed in 2001, only two of the three large deteriorated buildings included in the lease have been renovated, and the Army now estimates that EUL consideration will be about 22 percent less than was originally estimated. Moreover, in this case, the Army, rather than private sector tenants as was originally planned, has rented most of the EUL space that has been renovated. Thus, Army officials stated that nearly all of the estimated future consideration is now expected to be the result of the Army getting back a portion of the rent that the Army pays to the EUL developer.

The services' management of the EUL program included weaknesses related to internal controls and program guidance. First, because the services generally lacked documentation showing how certain provisions contained in the authorizing statute were addressed, it was not clear to what extent the services addressed each provision before entering into the leases. Second, in some EUL cases, it was not clear how and to what extent the services ensured the receipt of the fair market value of the lease interest, as required by the authorizing statute. Third, some EULs included property that was being used or might be needed by the military over the lease term, which could result in increased costs to relocate military activities or increased potential costs, if a lease had to be terminated early to permit the military to regain control of the property. Fourth, the services were not regularly monitoring EUL program administration costs, as called for by internal control standards, to help ensure that costs were in line with program benefits.