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PUBLIC-PRIVATE PARTNERSHIPS

Key Elements of Federal Building and Facility Partnerships

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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.[1] 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.[2]

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.[3] The following are a few of the federal agencies' weaknesses in this area:

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

[2] 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.

[3] See, for example, VA Healthcare: Capital Asset Planning and Budgeting Needs Improvement (GAO/T-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

- 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.[4] In

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

[4] See Executive Guide: Leading Practices in Capital Decision-Making (GAO/AIMD-99-32, Dec. 1998) and Budget Issues: Budgeting for Capital (GAO/T-AIMD-98-99, Mar. 6, 1998).

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.[5]

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.

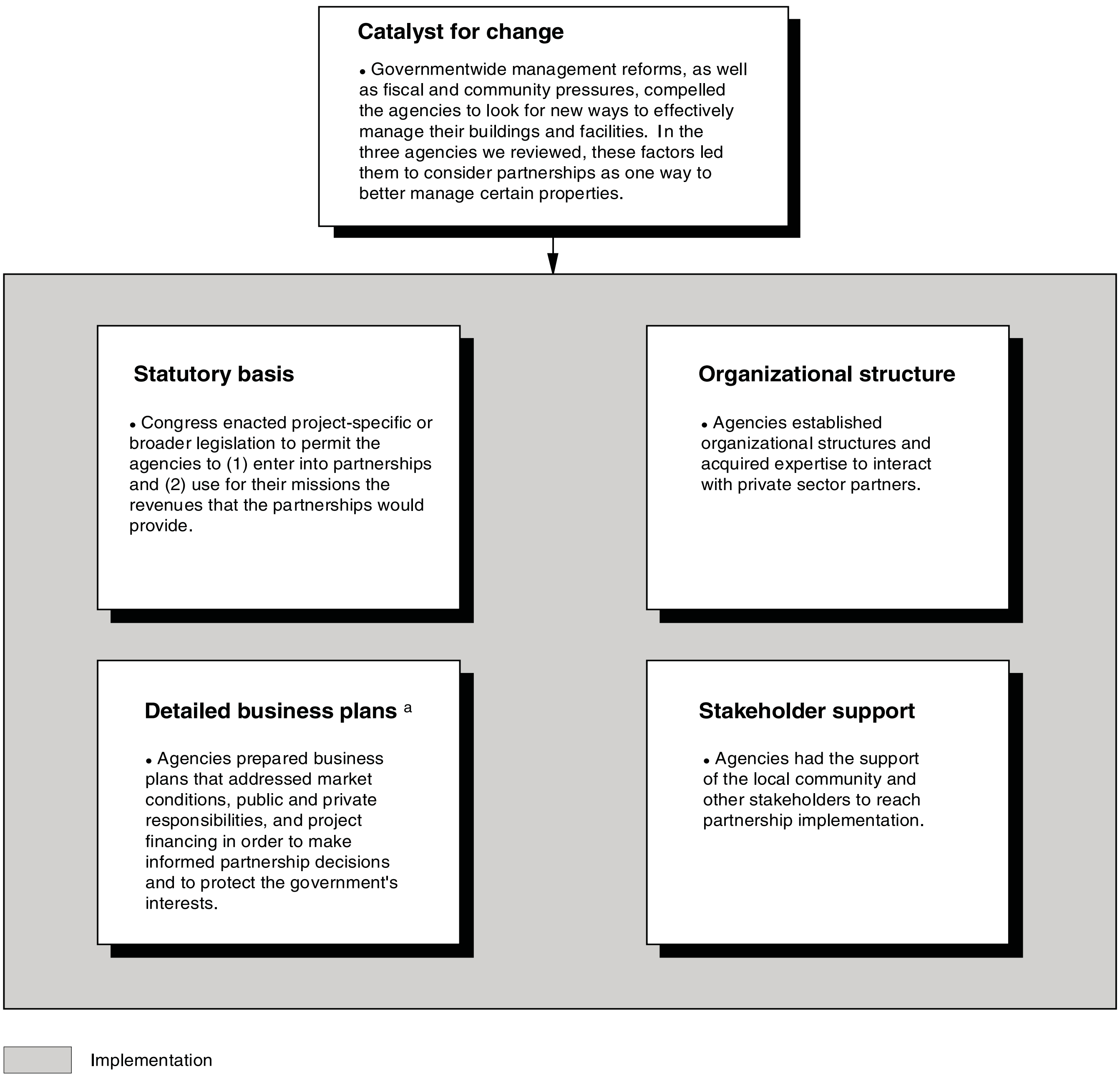
The six partnership projects we examined in our report were located in three agencies: the National Park Service (Park Service) within the Department of the Interior, the Department of Veterans Affairs (VA), and the U.S. Postal Service (Postal Service).[6] We selected them on several grounds, including 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.

[5] Federal Real Property: Key Acquisition and Management Obstacles (GAO/T-GGD-93-42, July 27, 1993).

[6] See appendix I of this testimony for a brief description of these projects. Appendixes II through IV of GAO/GGD-99-23 contain detailed descriptions of these projects.

Figure 1: Key Elements of Public-Private Partnerships



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

[a] Business plans may identify issues that require legislative action.

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

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 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.

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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.[7] 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.

[7] GAO/T-GGD-93-42.

Public-Private Partnership Projects We Reviewed

Projects and related agencies	Type	Brief description of projects
Department of the Interior, National Park Service		
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)	
Department of Veterans Affairs		
3. VA Regional Office, Houston, TX, 1993.[a]	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.[a]	Lease/develop/operate (35 years)	
U.S. Postal Service		
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)	

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

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