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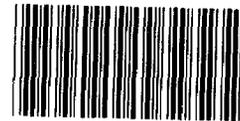
Before the Subcommittee on Water Resources, Transportation,
Public Buildings and Economic Development
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U.S. Senate

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FEDERAL REAL
PROPERTY

National Performance Review
Recommendations

Statement of J. William Gadsby
Director, Government Business Operations Issues
General Government Division



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FEDERAL REAL PROPERTY
NATIONAL PERFORMANCE REVIEW RECOMMENDATIONS

SUMMARY OF STATEMENT OF
J. WILLIAM GADSBY
DIRECTOR, GOVERNMENT BUSINESS
OPERATIONS ISSUES

The National Performance Review (NPR) report concluded, as GAO did in its December 1992 Transition Report on General Services Issues, that GSA's current methods of doing business should be replaced with new methods that are based on entrepreneurial and competitive principles.

In calling for an end to GSA's virtual monopoly in providing office space to federal agencies and resolving GSA's conflicting roles by organizationally separating its governmentwide policymaking and service delivery responsibilities and creating a new real property asset management enterprise, NPR's recommendations address concerns GAO expressed in its Transition Report on General Services and in other products. Although GAO supports these concepts, Congress and the administration will need to reexamine and resolve existing barriers that could adversely affect GSA's ability to compete successfully for federal agencies' business and to acquire and manage real property assets in a more businesslike manner.

With regard to new federal office space, GAO agrees that (1) GSA's building construction program deserves close scrutiny given the planned downsizing of government and current market conditions and (2) there may be opportunities to reduce the costs of GSA's construction projects. GAO endorses the concept of a moratorium on all net new acquisitions of space. However, a moratorium should not be so restrictive as to (1) preclude acquisitions if they would reduce costs or (2) prevent legitimate space needs from being met. Also, GAO's ongoing work suggests that NPR's recommendations to simplify certain leasing procedures have merit but may not go far enough.

The ultimate success of NPR's efforts will depend on how its recommendations are implemented, a task left largely to the agencies and Congress, and whether the recommended changes actually save money and improve government performance. Making these changes work will require, among other things, sustained commitment and cooperation between Congress and the administration.

Mr. Chairman and Members of the Subcommittee:

We welcome this opportunity to appear today to discuss the recommendations in the National Performance Review (NPR) report that deal with the General Services Administration's (GSA) federal real property activities. My testimony summarizes our views on these recommendations and presents some observations on issues that should be addressed during implementation.

As the attachment to my statement shows, we have reported on federal real property activities in a series of testimonies and reports over the past 4 years. We also have work under way on several federal real property issues. My testimony is based on this body of work and our initial examination and understanding of NPR's overall report, recognizing that more detailed reports will be issued later.

Mr. Chairman, the NPR report concluded, as we did in our December 1992 Transition Reports on Government Management and General Services and other reports on the way GSA manages public buildings, that management in the federal government is not good and that GSA should replace its current methods of doing business with new methods based on entrepreneurial and competitive principles. Traditional management principles, that are grounded in centralization and uniformity, may have worked well years ago. But they no longer allow the government to respond quickly and effectively.

NPR's recommendations apply entrepreneurial concepts to the way GSA acquires, manages and disposes of general purpose real estate. They call for an end to GSA's office space monopoly and resolution of GSA's conflicting roles by separating its governmentwide policymaking and service provider responsibilities and creating a new real property asset management enterprise. As such, they address issues we highlighted in our December 1992 transition report on GSA and in other recent products. NPR's report also recommends suspending acquisitions of new federal office space and simplifying procedures for acquiring small blocks of space and for renewing leases. I would like now to discuss our views on the NPR recommendations.

ENDING GSA'S REAL ESTATE MONOPOLY

Since 1949, GSA has had a virtual monopoly over office space and certain other mission-support services. However, tenant agencies have become increasingly dissatisfied with the condition, quality, and cost of their space as well as the length of time it takes GSA to deliver it. Our transition report on general services issues pointed out that as long as this monopoly exists, GSA will lack the incentive and pressure to meet modern needs and standards.

As part of the emphasis on putting customers first, NPR recommended that (1) the president end GSA's office space monopoly and (2) GSA seek legislation, revise regulations, and delegate authority to its customers to acquire various services from new GSA property enterprises, other federal entities, or the private sector. Such competition is designed to lower the costs for federal office space and bring real estate operations closer to the customer agency, which more intimately knows and understands its needs.

We support the concept of ending GSA's office space monopoly. However, to compete with private industry for federal agencies' real estate business, GSA must be able to respond quickly and effectively to customer needs and market conditions. In this regard, Congress and the administration need to reexamine and resolve constraints or barriers, such as capital investment funding limitations and the lengthy prospectus authorization process, that would adversely affect GSA's ability to compete.

CREATING A REAL PROPERTY ASSET MANAGEMENT ENTERPRISE

In recommending the creation of a real property asset management enterprise to separate GSA's governmentwide policymaking and direct provision of office space roles, NPR echoed our longstanding concerns about GSA's conflicting roles and the unbusinesslike way the federal government's vast, valuable real estate assets are managed. Besides organizationally separating GSA's policymaking and service delivery responsibilities, this recommendation is aimed at both improving governmentwide asset management practices and better enabling a new GSA service provider enterprise to compete effectively with private industry for agencies' business.

Creating an asset management organization is essential to effectively overseeing the federal government's enormous investment in real estate and maximizing the taxpayer's return on investment. But, as with NPR's recommendation to end GSA's real estate monopoly, barriers inhibiting effective asset management, such as inadequate management information and disincentives to dispose of unneeded or underperforming property, will need to be reexamined and resolved.

Also, NPR's report does not describe how and at what level the separation of GSA's policymaking and service provider roles should be made or where implementing regulations will be developed. Several other countries that have addressed this issue have found that a perception of conflict-of-interest can exist as long as the two roles are collocated in the same agency. Such a perception could affect agency decisions to use GSA as a service provider. Therefore, the implications of different strategies for separation need to be evaluated carefully.

SUSPENDING ACQUISITIONS OF NEW FEDERAL OFFICE SPACE

Historically, federal agencies' rent payments to GSA have not been sufficient to finance identified capital investment needs in new or existing federal buildings. Congress supplemented these payments by \$3.5 billion in 1990 and 1991 to allow GSA to undertake the first major federal building construction program in 20 years, and GSA is constructing several new buildings nationwide. The vast majority of this new construction is for courthouses and related office space to satisfy expanding federal court needs. Since this construction program was initiated in 1990, commercial real estate and financial markets have changed dramatically. RTC, FDIC, and the private sector now have real estate available that potentially could satisfy certain federal office space needs at lower costs than those of new construction. Despite extremely favorable market conditions and interest rates, GSA cannot take advantage of available buildings because of funding and budgetary limitations and its lack of discretionary building purchase authority.

NPR questioned GSA's plans to spend \$4 billion over the next 5 years to construct new federal office space and courthouses. As a part of efforts to cut back on questionable federal spending, NPR recommended that GSA suspend the acquisition of new federal office space by placing an immediate hold on construction, purchases, and leases of net new office space. NPR further recommended that GSA reduce planned space acquisition costs by at least \$2 billion over the next 5 years through aggressive negotiations for existing and new leases and reevaluations of the courts' space requirements and new courthouse construction costs. We agree that GSA's building construction program deserves close scrutiny given the planned downsizing of government and current market conditions and the resulting excess of commercial office buildings that are available for purchase or lease at attractive prices. We also agree that there may be opportunities to reduce the costs of GSA's construction projects. Although NPR's \$2 billion savings estimate seems ambitious, significant savings may be possible.

Therefore, we endorse the concept of a temporary moratorium on all net new federal acquisitions of space. However, the moratorium should not be so restrictive or inflexible as to (1) preclude purchases, leases, and lease-purchases of existing buildings if such actions would reduce the government's overall real estate costs or (2) prevent legitimate agency needs for space from being met. A moratorium should give GSA an opportunity to reexamine building needs from a strategic perspective within the limits of the information currently available.

SIMPLIFYING OFFICE SPACE LEASING PROCEDURES

As a part of efforts to reinvent support services, NPR recommended simplification of procedures for (1) acquiring leased office space of less than 10,000 square feet and (2) renewing existing office space leases. NPR's overall report did not elaborate on these recommended changes. GSA currently pays about \$2 billion annually for leased office space to house federal agencies, and these costs are projected to rise to \$3 billion annually by 2002. Our ongoing work in the leasing area for this Subcommittee indicates that NPR's recommendations have merit but may not go far enough.

NEXT STEPS--SUSTAINED COMMITMENT TO CHANGE

NPR has sent a clear signal for action and change related to both government programs and the underlying principles and processes that guide everyday government operations. However challenging NPR's task was, the harder job--successfully turning these recommendations into a reality--lies ahead. Although we understand that NPR's recommendations will be supplemented by a series of supporting documents, these supporting documents have not yet been released. The ultimate success of this effort will depend on how the recommendations are implemented, a task left largely to the agencies and Congress, and whether the changes save money and improve government performance.

To guide implementation, NPR has gone further than many other review groups of its type. In addition to specific recommendations to save money and improve performance, it established a framework to encourage and facilitate change. Attributes of this framework include developing performance agreements between the president and each of the cabinet heads, establishing performance measures, and creating the President's Management Council. Collectively, these attributes seek to establish a system of incentives and controls to move the government culture toward being more customer-focused, innovative, and less costly.

Although the NPR recommendations can create an environment for change, they cannot guarantee it. Opening up GSA to competition will not make GSA competitive, creating an asset management enterprise and separating it from day-to-day operations will not by itself result in the strategic management of the government's real estate assets, and adopting a moratorium on increasing the amount of office space will not by itself reduce the costs of office space. Making these changes work will require (1) cultural changes within GSA and a concerted effort to improve its performance and (2) sustained commitment and cooperation between Congress and the administration.

This completes my prepared statement. I would be pleased to respond to questions.

RELATED GAO PRODUCTS

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

Federal Buildings Fund Limitations (GAO/GGD-93-34R, Apr. 5, 1993).

Transition Series: General Services Issues (GAO/OCG-93-28TR, Dec. 1992).

General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992).

Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

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).

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

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, Sept. 26, 1989).

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