FEDERAL REAL PROPERTY

Excess and Underutilized Property Is an Ongoing Problem

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues
FEDERAL REAL PROPERTY

Excess and Underutilized Property Is an Ongoing Problem

What GAO Found

The conditions that led to GAO’s January 2003 high-risk designation still exist. The government’s vast and diverse portfolio of real property reflects an infrastructure based on the business model and technological environment of the 1950s. Many assets are no longer effectively aligned with, or responsive to, agencies’ changing missions and are therefore no longer needed. GAO’s high-risk reports, updated most recently in January 2005, highlighted problems with excess and underutilized property at several agencies, including the Departments of Defense and Veterans Affairs, the U.S. Postal Service, and the General Services Administration. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. These problems have been exacerbated by underlying obstacles that include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, and the need for better capital planning by agencies.

The administration has acknowledged the problems in this area; in February 2004, the President added the Federal Asset Management Initiative to the President’s Management Agenda and signed an executive order on real property reform. These and other efforts at the agency level are positive steps. However, despite the progress that has been made, GAO still believes that current structures and processes may not be adequate to fully address the problems. The breadth and complexity of the issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies’ efforts to realign their real property assets to their missions.

Example of Vacant Federal Property: The Former Main Post Office in Chicago

Source: USPS


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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify today on our work related to federal real property and, in particular, the problem with excess and underutilized property. As you know, at the start of each new Congress since 1999, we have issued a special series of reports entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, we designated federal real property a high-risk area as part of this series, and we issued an update on this area in January 2005.\(^1\) We identified excess and underutilized property as one of the major reasons for the high-risk designation. Other reasons included deteriorated property, unreliable real property data, over-reliance on costly leasing, and the challenges associated with protecting these assets from terrorism. My testimony today will (1) discuss our designation of federal real property as a high-risk area, focusing on excess and underutilized property; and (2) describe various efforts to address the problem and what more needs to be done. My testimony today will highlight the following points:

- The conditions that led to our January 2003 high-risk designation still exist. Many of the assets in the government’s vast and diverse portfolio of real property are not effectively aligned with, or responsive to, agencies’ changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Additionally, a heavy reliance on costly leasing, instead of ownership, to meet new needs is a pervasive and ongoing problem. These problems have been exacerbated by underlying obstacles that include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, and the need for better capital planning by real property-holding agencies.

- The administration has acknowledged the problems in this area; in February 2004, the President added the Federal Asset Management Initiative to the President’s Management Agenda and signed an executive order on real property management reform.\(^2\) These and other efforts at the agency level are positive steps. However, the breadth and complexity of

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The issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies’ efforts to realign their real property assets to their missions. As a result, we continue to believe that a comprehensive and integrated transformation strategy is needed to address the aforementioned underlying obstacles. As an example, the Office of Management and Budget (OMB) and other stakeholders could look to the U.S. Postal Service (USPS) Transformation Plan and related progress reports, which GAO has supported for guiding postal reform.

Over 30 federal agencies control hundreds of thousands of real property assets—including both facilities and land—in the United States and abroad. According to available data, the government owns or leases about 3.3 billion square feet of building floor area worldwide in roughly a half-million buildings. About 380 million square feet of this space is leased. These assets are worth hundreds of billions of dollars. However, much of this vast and valuable asset portfolio presents significant management challenges and reflects an infrastructure based on the business model and technological environment of the 1950s. Many assets are no longer effectively aligned with, or responsive to, agencies’ changing missions and are therefore no longer needed. Our high-risk reports, updated most recently in January 2005, highlighted problems with excess and underutilized property at several agencies, including the Departments of Defense (DOD), Veterans Affairs (VA), Energy, and State; USPS; and the General Services Administration (GSA). Furthermore, many assets are in an alarming state of deterioration; agencies have estimated restoration, repair, and maintenance needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing instead of ownership to meet new space needs, and the cost and challenge of protecting these assets against potential terrorism. Regarding the federal government’s reliance on costly leasing, we testified on this issue before this Subcommittee in October 2005. Building ownership options through construction or purchase and lease-purchase are generally less costly than using operating leases to meet long-term space needs. However, as GAO reported over the last decade, GSA relies heavily on operating leases to meet new long-term space needs because it lacks funds to pursue ownership.

The excess and underutilized property problem was, and continues to be, a major reason the real property area remains high risk. In the last decade alone, the federal government has reduced its workforce by several hundred thousand personnel, and several federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general-purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. The advent of electronic government is starting to change how the public interacts with the federal government. These changes will have significant implications for the type and location of property needed in the 21st century. Furthermore, changes in the overall domestic security environment have presented an additional range of challenges to real property management that must be addressed. For example, agencies are employing such measures as searching vehicles that enter federal facilities, restricting parking, and installing concrete barriers.

The experiences of several of the major real property-holding agencies illustrate how mission changes have affected agencies’ real property needs. For example, after the Cold War, DOD reduced its force structure by 36 percent. Despite several rounds of base closures, DOD projected that it still had considerably more property than it needed. The National Defense Authorization Act for Fiscal Year 2002 gave DOD the authority for another round of base realignments and military installation closures in 2005. The results of the 2005 BRAC process, which will be discussed in more detail later, became final in November 2005. For USPS, various factors may significantly reduce its need for some of the real property it holds. These factors include new technologies, additional delivery options, and the opportunity for greater use of partnerships and retail co-location arrangements. A July 2003 Presidential Commission report on USPS stated, among other things, that USPS had vacant and underutilized facilities that added little, if any, value to the modern-day delivery of the nation’s mail. In April 2005, we reported that USPS faces future financial challenges due to its declining First-Class Mail business and has excess capacity in its current infrastructure that impedes efficiency gains. USPS


has stated that one way to increase efficiency is to realign its processing and distribution infrastructure.

The former main post office building in Chicago, near the Sears Tower, is an example of a vacant USPS-owned property (see fig.1). USPS is currently incurring about $2 million in annual holding costs for this property, which was replaced by a new facility and vacated in 1997. Redevelopment of this property has taken several years because, according to USPS, the real estate market was weak and the City of Chicago and the developer have been unable to agree on terms. According to USPS, the property buyer is currently in negotiations with the City of Chicago regarding the property’s redevelopment and the granting of certain tax exemptions from the City.

In the mid-1990s, VA began shifting its role from being a traditional hospital-based provider of medical services to an integrated delivery system that emphasizes a full continuum of care with a significant shift
from inpatient to outpatient services. Subsequently, VA has struggled to reduce its large inventory of buildings, many of which are underutilized or vacant. In August 2003, we reported that VA had 577 vacant and underutilized properties. Figure 2 shows an example of a vacant VA-owned property in Milwaukee, Wisconsin.

Figure 2: Example of Vacant VA-Owned Property—The Former Main Hospital Building on the Milwaukee, Wisconsin, Health Facility Campus

The L. Mendel Rivers Federal Building in Charleston, South Carolina is an example of a vacant, highly visible federal building owned by GSA (see fig. 3). This property, which is contaminated with asbestos, has been unoccupied since it sustained damage from Hurricane Floyd in 1999. In the last 10 years, GSA has unsuccessfully explored various options for disposal or reuse. Currently, GSA is planning, under existing authority, to exchange this building with a property owned by the City that would suit the federal government’s needs.
The magnitude of the problem with underutilized or excess federal property puts the government at significant risk for wasting taxpayers’ money and missing opportunities to benefit taxpayers. First, underutilized or excess property is costly to maintain. In our 2003 high-risk report, we reported that DOD estimated that it was spending $3 billion to $4 billion each year maintaining facilities that were not needed. It is likely that other agencies that continue to hold excess or underutilized property are also incurring significant costs for staff time spent managing the properties and on maintenance, utilities, security, and other building needs. Second, in addition to day-to-day operational costs, holding these properties is costly for the government, because these buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. Continuing to hold property that is unneeded does not present a positive image of the federal government in local communities. Instead, it presents an image of waste and inefficiency that erodes taxpayers’ confidence in government. Finally, it also can have
a negative impact on local economies if the property is occupying a valuable location and is not used for other purposes, sold, or used in a public-private partnership.

The excess and underutilized property problem, as well as the other problems that led to our high-risk designation, has been exacerbated by a number of factors that inhibit the government’s ability to efficiently dispose of or reuse excess and underutilized property. These include competing stakeholder interests in real property decisions, various legal and budget-related disincentives to businesslike outcomes, and the need for better capital planning by real property-holding agencies. More specifically:

- **Competing Stakeholder Interests** - In addition to Congress, OMB, and the real property-holding agencies themselves, several other stakeholders have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These include foreign and local governments; business interests in the communities where the assets are located; private sector construction and leasing firms; historic preservation organizations; various advocacy groups; and the public in general, which often views the facilities as the physical face of the federal government in local communities. As a result of competing stakeholder interests, decisions about real property often do not reflect the most cost-effective or efficient alternative that is in the interests of the agency or the government as a whole, but instead reflect other priorities.

- **Legal and Budgetary Disincentives** - The complex legal and budgetary environment in which real property managers operate has a significant impact on real property decisionmaking and often does not lead to economically rational and businesslike outcomes. For example, GSA does not have the authority to enter into public-private partnerships to redevelop property. We have reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. Furthermore, resource limitations, in general, often prevent agencies from addressing real property needs from a strategic perspective. When available funds for capital investment are limited, Congress must weigh the need for new, modern facilities with the need for renovation, maintenance, and disposal of existing facilities, the latter of which often gets deferred. In disposing of excess property, agencies also need to consider a range of laws intended to address other objectives—such as historic preservation and environmental remediation.
Need for Improved Capital Planning - Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in increased long-term costs. GAO, Congress, and OMB have identified the need to improve federal decisionmaking regarding capital investment. Our Executive Guide, OMB’s Capital Programming Guide, and OMB’s revisions to Circular A-11 have attempted to provide guidance to agencies for making capital investment decisions. However, agencies are not required to use the guidance. Furthermore, agencies have not always developed overall goals and strategies for implementing capital investment decisions, nor has the federal government generally planned or budgeted for capital assets over the long term.

Various Efforts Initiated, but a Transformation Strategy Is Still Needed

Since our designation of the federal real property area as high-risk in January 2003, the administration and executive agencies have initiated some important efforts to address these problems, including the addition of the Federal Asset Management Initiative to the President’s Management Agenda and an executive order on real property management reform which led to the development of guiding principles for real property asset management. The executive order requires the establishment of senior real property officers at specified executive branch departments and agencies who, among other things, prioritize actions needed to improve the operational and financial management of the agency’s real property inventory. The order also established a Federal Real Property Council, with representation from major real property-holding agencies. The council has developed guiding principles for real property asset management, and is also developing performance measures, a real property inventory database, and an agency asset management planning process. Related to the excess and underutilized property problem, the administration has set a goal of reducing the value of the federally owned property inventory by 5 percent, or $15 billion, by 2009. The executive order and related initiatives are clearly positive steps. However, they have

7OMB, Circular No. A-11, Appendix B.
8See 31 USC §901 (b)(1) and (b)(2) for a list of executive branch departments and agencies that are required to establish a senior real property officer.
not been fully implemented and further actions—which will be discussed later—are necessary to address the underlying obstacles to reform.

In addition to the administration’s efforts, the Consolidated Appropriations Act for Fiscal Year 2005, Public Law 108-447, gave GSA the authority to retain the net proceeds from the disposal of federal property for fiscal year 2005 and to use such proceeds for GSA’s real property capital needs. However, this provision was not included in the GSA appropriation act for Fiscal Year 2006. Also, the Veterans Health Programs Improvement Act of 2004, Public Law 108-422, established a capital asset fund and gave VA the authority to retain the proceeds from the disposal of its real property for the use of certain capital asset needs such as demolition, environmental clean-up, and major repairs. Overall, agencies such as DOD, VA, and GSA have made progress in addressing long-standing federal real property problems. For example:

- **VA** has established a process called Capital Asset Realignment for Enhanced Services (CARES) to address its aging and obsolete portfolio of health care facilities. In March 2005, we reported that through CARES, VA identified 136 locations for evaluation of alternative ways to align inpatient services—99 facilities had potential duplication of services with another nearby facility or low acute patient workload. VA made decisions to realign inpatient health care services at 30 of these locations. For example, it will close all inpatient services at 5 facilities. VA’s decisions on inpatient alignment and plans for further study of its capital asset needs are tangible steps in improving management of its capital assets and enhancing health care. Accomplishing its goals, however, will depend on VA’s success in completing its evaluations and implementing its CARES decisions to ensure that resources now spent on unneeded capital assets are redirected to health care.

- **In DOD’s support infrastructure management area**, which we identified as high-risk in 1997, DOD has made progress and expects to continue making improvements. In May 2005, we testified that DOD implemented the recommendations from the previous four Base Realignment and Closure (BRAC) rounds within the 6-year period mandated by law and work on a

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10BRAC is the process DOD has previously used to reorganize its installation infrastructure to more efficiently and effectively support its forces and increase operational readiness.
5th, 2005 BRAC, was underway.\textsuperscript{11} DOD estimated that it had reduced its domestic infrastructure by about 20 percent from the four prior rounds, as measured by the estimated cost to replace the property; about 90 percent of unneeded BRAC property is now available for reuse. DOD has realized substantial net savings from those four rounds over time. Recommendations approved by the 2005 BRAC round are expected to further reduce DOD’s infrastructure but by a much smaller margin than initially expected, although it expects to make a significant reduction in leased space in implementing the BRAC recommendations. DOD also expects to use BRAC to further transformation and related efforts, such as restationing troops from overseas as well as joint basing among the military services. The President concurred with and sent the 2005 BRAC report to Congress in September 2005, and absent congressional action to reject the recommendations within the 45 days provided by law, they became final in November 2005. Planning is now underway to implement those recommendations.

- GSA has recognized in recent years that it has many buildings that are not financially self-sustaining and/or for which there is not a substantial long-term federal purpose. To address this problem, GSA began its Portfolio Restructuring in 2001. This effort seeks to eliminate non-performing or obsolete properties from the GSA inventory. In January 2006, GSA told us that since fiscal year 2002, it had identified 204 buildings as excess and demolished 50 others. We have not evaluated this initiative.

Despite the progress that has been made, we still believe that current structures and processes may not be adequate to fully address the federal real property problems. The breadth and complexity of the issues involved and the long-standing nature of the problems and their underlying causes will likely continue to hamper agencies’ efforts to realign their real property assets to their missions. This is of particular concern for civilian agencies that do not have an independent decision-making apparatus like BRAC. Given this, we concluded in our high-risk report and in our update in January 2005, and still believe, that a comprehensive and integrated transformation strategy for federal real property is needed. Such a strategy could build upon the executive order by providing decisionmakers with a road map of actions for addressing the underlying obstacles, assessing progress governmentwide, and enhancing accountability for related actions. Using input from agencies, the private sector, and other interested

groups, the strategy could comprehensively address these long-standing problems with specific proposals on how best to

- realign the federal infrastructure and dispose of unneeded property, taking into account mission requirements, changes in technology, security needs, costs, and how the government conducts business in the 21st century;

- address the significant repair and restoration needs of the federal portfolio;

- ensure that reliable governmentwide and agency-specific real property data—both financial and program related—are available for informed decisionmaking;

- resolve the problem of heavy reliance on costly leasing; and

- consider the impact that the threat of terrorism will have on real property needs and challenges, including how to balance public access with safety.

To be effective in addressing these problems, it would be important for the strategy to focus on the underlying obstacles by

- minimizing the negative effects associated with competing stakeholder interests in real property decisionmaking;

- providing agencies with appropriate tools and incentives that will facilitate businesslike decisions—for example, consideration should be given to what financing options should be available; how disposal proceeds should be handled; what process would permit comparisons between rehabilitation/renovation and replacement and among construction, purchase, lease-purchase, and operating lease; and how public-private partnerships should be evaluated;

- addressing federal human capital issues related to real property by recognizing that real property conditions affect the productivity and morale of employees and the federal government’s ability to attract and retain high-performing individuals;

- improving real property capital planning in the federal government by helping agencies to better integrate agency mission considerations into the capital decision-making process, make businesslike decisions when evaluating and selecting capital assets, evaluate and select capital assets by using an investment approach, evaluate results on an ongoing basis, and develop long-term capital plans; and
ensuring credible, rational, long-term budget planning for facility sustainment, modernization, or recapitalization.

As an example, OMB and other stakeholders could look to the USPS Strategic Transformation Plan and related progress reports, which GAO has supported for guiding postal reform. Also, the transformation strategy should reflect the lessons learned and leading practices of organizations in the public and private sectors that have attempted to reform their real property practices. Over the past decade, leading organizations in both the public and private sectors have been recognizing the impact that real property decisions have on their overall success. Better management of real property assets in the current environment calls for a significant departure from the traditional way of doing business. Solutions should not only correct the long-standing problems we have identified but also respond to and support agencies' changing missions, security concerns, and technological needs in the 21st century. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, recruit and retain employees, and achieve mission effectiveness.

Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive. Without effective incentives and tools; top management accountability, leadership, and commitment; adequate funding; full transparency with regard to the government’s real property activities; and an effective system to measure results, long-standing real property problems will continue and likely worsen. However, the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented, reforms are made, and property-holding agencies effectively implement current and planned initiatives. OMB has informed us that it has taken additional steps to address the federal government’s problems in the real property area. Specifically, it has developed an action plan for addressing these long-standing issues in relation to the President’s Management Agenda and the executive order. To assist OMB with its efforts, we have agreed to meet regularly to discuss progress and have provided OMB with specific suggestions on the types of

actions and results that could be helpful in justifying the removal of real property from the high-risk list.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

Scope and Methodology

We conducted our work for this testimony from October 2005 to January 2006 in accordance with generally accepted government auditing standards. The work is based on our past reports on federal real property and, specifically, excess and underutilized property issues.

Contacts and Acknowledgments

For further information on this testimony, please contact Mark L. Goldstein on (202) 512-2834 or at GoldsteinM@gao.gov. Key contributions to this testimony were made by Kieran McCarthy, Susan Michal-Smith, and David Sausville.
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