FEDERAL REAL PROPERTY

Status of FBI Headquarters Consolidation and Issues Related to Funding Other Future Projects

Statement of Dave Wise, Director, Physical Infrastructure
FEDERAL REAL PROPERTY
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What GAO Found
In November 2011, GAO reported that, according to General Services Administration (GSA) and Federal Bureau of Investigation (FBI) assessments, the FBI's headquarters building (Hoover Building) and its accompanying facilities in Washington, D.C., did not fully support the FBI's long-term security, space, and building condition requirements. Since GAO's report, the assessments have not materially changed, for example:

- **Security:** GAO's prior work noted that the dispersion of staff in annexes creates security challenges, including where some space was leased by the FBI and other space was leased by nonfederal tenants. Earlier this year, GAO reported the FBI is leasing space in D.C. from foreign owners.
- **Space:** In 2011, GAO reported that FBI and GSA studies showed that much of the Hoover Building is unusable. GSA noted in its fiscal year 2017 project prospectus for the FBI headquarters consolidation that the Hoover Building cannot be redeveloped to meet the FBI's current needs.
- **Building Condition:** In GAO's 2011 report, GAO noted that the condition of the Hoover Building was deteriorating, and GSA assessments identified significant recapitalization needs. Since GAO's report and in response to GAO’s recommendation, GSA has evaluated its approach to maintaining the building and completed some repairs to ensure safety.

GSA has limited experience in successfully completing swap exchange transactions and chose not to pursue several proposed swap exchanges, most recently the planned swap exchange for the Hoover Building. GSA has developed criteria for determining when to solicit market interest in a swap exchange, in response to recommendations in GAO’s 2014 report. In addition, GSA officials told GAO that they planned to improve the swap exchange process, including the property appraisal process, outreach to stakeholders to identify potential risks associated with future projects, and to the extent possible, mitigate such risks. Nevertheless, several factors may continue to limit use of swap exchanges, including market factors, such as the availability of alternative properties and an investor’s approach for valuing properties. For example, in reviewing a proposed swap exchange in Washington, D.C., GAO found in a 2016 report that the proposals from two firms valued the two federal buildings involved in the proposed swap substantially less than GSA’s appraised property value.

In a 2014 report, GAO identified a number of alternative approaches to funding real property projects. Congress has provided some agencies with specific authorities to use alternative funding mechanisms—including the use of private sector funds or land swaps—for the acquisition, renovation, or disposal of federal real property without full, upfront funding, though GAO has previously reported that upfront funding is the best way to ensure recognition of commitments made in budgeting decisions and maintain fiscal controls. GAO has reported that projects with alternative funding mechanisms present multiple forms of risk that are shared between the agency and any partner or stakeholder. In addition, alternative budgetary structures could be established, such as changing existing or introducing new account structures to fund real property projects.

Related to Funding Other Future Projects

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Why GAO Did This Study
GSA, which manages federal real property on behalf of other federal agencies, faces challenges in funding new construction projects due to budget constraints—including obtaining upfront funding—among other reasons. One type of transaction, called a swap exchange, enables GSA to apply the value of federal property to finance construction without relying on appropriated funds. Under such an exchange, GSA transfers the title of unneeded property to a private investor after receiving the agreed upon construction services at another location. GSA proposed a swap exchange procurement for construction of a new FBI headquarters building in exchange for the Hoover Building and appropriations to compensate for the difference in value between the Hoover Building and the new building. GSA cancelled this procurement in July 2017 due to lack of funding.

This statement addresses (1) GSA’s and FBI’s assessments of the Hoover Building, (2) GSA efforts to implement swap exchanges, and (3) alternative approaches to funding real property projects. It is based on GAO’s body of reports on real property from 2011 to 2017, and selected updates from GSA.

What GAO Recommends
GAO has made recommendations in the past to GSA on various real property issues, including to develop additional guidance for swap exchanges and to evaluate its approach to maintaining the Hoover Building. GSA agreed with these two recommendations and addressed them.

View GAO-17-783T. For more information, contact Dave Wise at (202) 512-2834 or wised@gao.gov.
Chairman Barrasso, Ranking Member Carper, and Members of the Committee:

Thank you for the opportunity to discuss our work on the General Services Administration’s (GSA) efforts to consolidate the Federal Bureau of Investigation’s (FBI) headquarters operations into a new location and the broader challenges associated with funding and budgeting for similarly large real property projects. GSA, which manages federal real property on behalf of other federal agencies, continues to face challenges related to funding new construction projects due to budget constraints—including obtaining upfront funding—among other reasons. According to GSA officials, funding has not kept pace with GSA’s need to replace and maintain the approximately 1,500 owned buildings under its control. Using various available legal authorities, GSA has begun to exchange title to some federally owned real property for other properties or construction services.¹

One type of transaction, called a “swap construct” exchange (or swap exchange), enables GSA to apply the value of federal property to finance construction needs without relying on appropriated funds. Under such an exchange, GSA transfers the title of the unneeded property to a private investor after receiving the agreed-upon construction services at another location. For example, in 2012 GSA exchanged a 5-acre property in San Antonio, Texas, for the construction of a new parking structure at a different location. Swap exchanges can be of equal value or can include federal appropriations to compensate for a difference in value between the federal property and the asset or services to be received by the federal government.

GSA had proposed using a swap exchange for consolidation of the FBI headquarters operations into a new location in exchange for the existing FBI headquarters building (Hoover Building) in Washington, D.C., and its underlying land, but cancelled that procurement in July 2017. Specifically, GSA proposed construction of a new 2.1 million square foot consolidated headquarters building in one of three locations—Greenbelt, Maryland; Landover, Maryland; or Springfield, Virginia. As part of a swap exchange, the developer chosen to design and construct the new headquarters building would, in exchange, receive the Hoover Building site and

appropriated funds to compensate for the difference in value between the Hoover Building and the new building. However, in July 2017, GSA cancelled the project because, according to GSA and FBI officials, they lacked the amount of funding necessary to proceed with the procurement.\(^2\)

The cancellation of the proposed FBI swap exchange has highlighted the continuing challenges GSA and federal agencies face for budgeting and funding real property construction projects. My testimony will address (1) GSA’s and FBI’s assessments of the status of the Hoover Building, (2) GSA efforts to implement swap exchanges to facilitate real property actions, and (3) alternative approaches to funding real property projects. My testimony summarizes the results of a number of our previous reports on real property utilization and management issued from 2011 to 2017. Detailed information on our scope and methodologies for this work can be found in these published products, which are cited throughout this testimony. In addition, this testimony includes some updates based on our follow-up with GSA on the status of our recommendations and information posted on GSA’s website on the project’s status. The work on which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

\(^2\)GSA requested $1.4 billion for this project in its fiscal year 2017 budget request. Congress appropriated $523 million in fiscal year 2017 for the project.
In November 2011, we reported that over the previous decade, the FBI and GSA conducted a number of studies to assess the Hoover Building and its other headquarters facilities’ strategic and mission needs. Through these studies, they determined the condition of the FBI’s current assets and identified gaps between current and needed capabilities, as well as studied a range of alternatives to meet the FBI’s requirements. According to these assessments, the FBI’s headquarters facilities did not fully support the FBI’s long-term security, space, and building condition requirements. Since our report, the assessment of the Hoover Building has not materially changed. For example:

- **Security:** Since September 11, 2001, the FBI mission and workforce have expanded, and the FBI has outgrown the Hoover Building. As a result, the FBI also operates in annexes, including some located in the National Capital Region. During our 2011 review, FBI security officials told us that they have some security concerns—to varying degrees—about the Hoover Building and some of the headquarters annexes. In our report, we noted that the dispersion of staff in annexes created security challenges, particularly for at least nine annexes that were located in multitenant buildings, where some space was leased by the FBI and other space was leased by nonfederal tenants. While this arrangement did not automatically put FBI operations at risk, it heightened security concerns. In addition, in January 2017, we found that the FBI occupies space leased from foreign owners in at least six different locations, including one in Washington, D.C. Further, federal officials who assess foreign investments told us at that time that leasing space in foreign-owned buildings could present security risks, such as espionage and unauthorized cyber and physical access.

- **Space:** In 2011, we reported that FBI and GSA studies showed that much of the Hoover building’s approximately 2.4 million gross square feet of space is unusable, and the remaining usable space is not designed to meet the needs of today’s FBI. Moreover, the Hoover

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4GAO, Federal Real Property: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners, GAO-17-195 (Washington, D.C.: Jan. 3, 2017). We recommended that GSA should determine whether the beneficial owner of high-security space that GSA leases is a foreign entity and, if so, share that information with the tenant agencies so they can adequately assess and mitigate any security risks. GSA agreed with our recommendation.
Building’s original design is inefficient, according to GSA assessments, making it difficult to reconfigure space to promote staff collaboration. For example, in its fiscal year 2017 prospectus for the proposed FBI headquarters consolidation project, GSA noted that the Hoover Building was designed at a time when FBI operated differently, and it cannot be redeveloped to provide the necessary space to consolidate the FBI Headquarters components or to meet the agency’s current and projected operational requirements. As a result, the FBI reported facing several operational and logistical challenges. We similarly noted in our prior work in 2011 that space constraints at the Hoover Building and the resulting dispersion of staff sometimes prevented the FBI from physically locating certain types of analysts and specialists together, which in turn hampered collaboration and the performance of some classified work.5

- **Building condition:** In our 2011 report, we noted that the condition of the Hoover Building was deteriorating, and GSA assessments had identified significant recapitalization needs. At that time, we found that GSA had decided to limit investments in the Hoover Building to those necessary to protect health and safety and keep building systems functioning while GSA assessed the FBI’s facility needs. We found that this decision increased the potential for building system failures and disruption to the FBI's operations. Given that the FBI would likely remain in the building for at least several more years, we recommended that GSA evaluate its strategy to minimize major repair and recapitalization investments and take action to address any facility condition issues that could put FBI operations at risk and lead to further deterioration of the building. In 2014, in response to our recommendation, GSA evaluated its strategy for the Hoover Building and determined it needed to complete some repairs to ensure safety and maintain tenancy in the building. For example, in 2014, GSA funded contracts to waterproof portions of the building’s mezzanine level to prevent water intrusion into the building and repair the concrete facade, small sections of which had cracked and fallen from the building.

In July 2017, GSA and FBI officials stated that they cancelled the procurement for the new FBI headquarters consolidation project, noting that there was a lack of funding necessary to complete the procurement. GSA added that the cancellation of the procurement did not lessen the need for a new FBI headquarters, and that GSA and the FBI

5GAO-12-96.
would continue to work together to address the space requirements of the FBI.

In July 2014, we reported that the swap exchange approach can help GSA address the challenges of disposing of unneeded property and modernizing or replacing federal buildings. GSA officials told us that swap exchanges can help GSA facilitate construction projects given a growing need to modernize and replace federal properties, shrinking federal budgets, and challenges obtaining funding. Specifically, GSA officials noted that swap exchanges allow GSA to immediately apply the value of a federal property to be used in the exchange to construction needs, rather than attempting to obtain funds through the appropriations process. In our 2014 report, GSA officials stated that the exchanges can be attractive because the agency can get construction projects accomplished without having to request full upfront funding for them from Congress. In addition, because swap exchanges require developers or other property recipients to complete the agreed-upon GSA construction projects prior to the transfer of the title to the current property GSA is exchanging, federal agencies can continue to occupy the property during the construction process for the new project, eliminating the need for agencies to lease or acquire other space to occupy during the construction process.

GSA has limited experience in successfully completing swap exchange transactions and has cancelled several recently proposed swap exchanges. More specifically, in 2016 we reported that GSA had only completed transactions using the swap exchange authority for two small (under $10-million each) swap exchanges completed in Atlanta, Georgia, in 2001 and in San Antonio, Texas, in 2012. Furthermore, GSA has faced a number of obstacles in its use of this authority. For example, for our 2014 report, we reviewed five projects identified since August 2012 in which GSA solicited market interest in exchanging almost 8-million square feet in federal property for construction services or newly constructed assets. However, GSA chose not to pursue swap-exchanges in all five of these projects, including the proposed FBI headquarters.

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consolidation project. For example, GSA officials told us that there was little or no market interest in potential swap exchanges in Baltimore, Maryland, and Miami, Florida, and that GSA chose to pursue different approaches. Respondents to the solicitations for these two GSA swap exchanges noted that GSA did not provide important details, including the amount of investment needed in the federal properties and GSA’s specific construction needs. In addition, from 2012 to 2015, GSA pursued a larger swap exchange potentially involving up to 5 federal properties located in the Federal Triangle South area of Washington, D.C., to finance construction at GSA headquarters and other federal properties. In 2013, GSA decided to focus on exchanging two buildings, the GSA Regional Office Building and the Cotton Annex, based on input from potential investors. On February 18, 2016, GSA decided to end its pursuit of the exchange, saying in a memorandum supporting this decision that private investor valuations for the two buildings fell short of the government’s estimated values.8

After the discontinuation of the Federal Triangle swap exchange project, we reported in 2016 that GSA officials noted they planned to improve the swap exchange process, including the property appraisal process, outreach to stakeholders to identify potential project risks for future projects, and to the extent possible, mitigate such risks. However, we also reported that several factors may continue to limit the applicability of the agency’s approach. Specifically, the viability of swap exchanges may be affected by specific market factors, such as the availability of alternative properties. In addition, the specific valuation approach used by appraisers or potential investors may reduce the viability of the swap exchange. For example, in reviewing the proposed Federal Triangle project, we found in 2016 that the proposals from two of the investment firms valued the two federal buildings involved in the proposed swap substantially less than GSA’s appraised property value.9 In addition, swap exchanges can require developers to spend large sums on GSA’s construction needs before receiving title to the federal property used in the exchanges. We found in 2014 that GSA’s solicitations have not always specified these construction needs in sufficient detail.10 Consequently, developers may be unable to provide meaningful input, and GSA could miss swap

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8 GAO-16-571R. In April 2017, GSA formally transferred the title for the Cotton Annex to the highest bidder for the property, who submitted a bid of approximately $30 million.

9 GAO-16-571R.

10 GAO-14-586.
exchange opportunities. In 2014, we recommended that GSA develop criteria for determining when to solicit market interest in a swap exchange. GSA agreed with the recommendation and has since updated its guidance to include these criteria.

In January 2017, GSA agreed to a swap exchange for the U.S. Department of Transportation Volpe Center in Cambridge, Massachusetts. After a competitive process, GSA selected the Massachusetts Institute of Technology (MIT) as its exchange partner for the existing Department of Transportation (DOT) facility. Per the agreement, MIT will construct a new DOT facility on a portion of a 14 acre site to which DOT has title and, in exchange, will receive title to the remaining portion of the site that will not be used by DOT, which is located near its main campus. GSA indicated that, once completed, the project will provide $750 million in value to the federal government in the form of the design and construction services and value-equalization funds from MIT.

Our prior work has identified a number of alternative approaches to funding real property projects.\textsuperscript{11} In March 2014, we reported that upfront funding is the best way to ensure recognition of commitments made in budgeting decisions and to maintain fiscal controls.\textsuperscript{12} However, obtaining upfront funding for large acquisitions such as the Hoover Building replacement can be challenging. Congress has provided some agencies with specific authorities to use alternative funding mechanisms for the acquisition, renovation, or disposal of federal real property without full, upfront funding. Table 1 outlines selected funding mechanisms, and considerations for each mechanism we identified in our 2014 report. Some of these alternative mechanisms allow selected agencies to meet their real property needs by leveraging other authorized resources, such as retained fees or land swaps with a private sector partner. Funding mechanisms leverage both monetary resources, such as retained fees, and non-monetary resources, such as property exchanged in a land swap

\textsuperscript{12}GAO-14-239.
or space offered in an enhanced use lease. In some cases, the funding mechanism may function as a public-private partnership intended to further an agency's mission by working with a partner to leverage resources. Some of these mechanisms allow the private sector to provide the project's capital—at their cost of borrowing. The U.S. federal government’s cost of borrowing is lower than the private sector's. When the private sector provides the project capital, the federal government later repays these higher private sector borrowing costs (e.g., in the form of lease payments). In some cases, factors such as lower labor costs or fewer requirements could potentially help balance the higher cost of borrowing, making partner financing less expensive. Our 2014 report also identifies budgetary options—within the bounds of the current unified budget—to meet real property needs while helping Congress and agencies make more prudent long-term decisions.

13An enhanced use lease allows an agency to lease out property and receive payment in cash or in kind (goods or services that result in direct cost savings to the government) from the lessee. GAO has done previous work on the Department of Veterans Affairs (VA) use of enhanced use leases to redevelop underutilized federal real property. For more information, see GAO, Homeless Veterans: Management Improvements Could Help VA Better Identify Supportive-Housing Projects, GAO-17-101 (Washington D.C.: Dec. 21, 2016), and GAO, Federal Real Property: Improved Cost Reporting Would Help Decision Makers Weigh the Benefits of Enhanced Use Leasing, GAO-13-14 (Washington, D.C.: Dec. 19, 2012).
### Table 1: Selected Alternative Mechanisms for Funding Federal Real Property Projects and Considerations for Using Them

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Description</th>
<th>Considerations based on prior GAO work</th>
</tr>
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<tbody>
<tr>
<td>Operating lease used to meet long-term need</td>
<td>An operating lease gives the federal government the use of an asset for a specified period of time, but the ownership of the asset does not change. While there are no specific time limits, an operating lease is not intended to be used for long-term property needs.</td>
<td>When used as intended for short-term needs, operating leases are not alternative funding mechanisms. However, operating leases—or successive operating leases—have been used to help acquire assets for which there is a long-term need, resulting in inefficient resource allocation decisions. Operating leases used to consolidate space may require upfront costs (i.e., moving, space reconfiguration, furniture) but may result in long-term cost savings from decreased rental costs.</td>
</tr>
<tr>
<td>Land swap</td>
<td>A real property swap is an exchange of property owned by the federal government with either a private entity or a state or local government for another property.</td>
<td>Use of land swaps is limited by the need for well-aligned mutual needs. Land swaps are generally non-cash transactions and thus are not recognized in the budget. Property swaps can relieve the federal government of maintenance and/or renovation costs and result in a real asset that may be used immediately with no additional appropriations required. However, determining fair value for the properties exchanged is not always a clear-cut process and congressional oversight of these exchanges is limited.</td>
</tr>
<tr>
<td>Retained fees</td>
<td>Proceeds that result from business-type or market-oriented activities with the public, such as the collection of user fees.</td>
<td>The legislation authorizing these fees may assign them for a specific purpose without further Congressional action or require them to be appropriated in annual appropriation acts before they can be spent. In some cases, agencies have been authorized to retain earned fees to fund capital projects and improvements.</td>
</tr>
<tr>
<td>Enhanced use lease</td>
<td>An enhanced use lease allows an agency to lease out property and receive payment in cash or in kind (goods or services that result in direct cost savings to the government) from the lessee.</td>
<td>The agency acts as the lessor—rather than lessee. The project is limited by the need to find an appropriate partner.</td>
</tr>
</tbody>
</table>

Source: GAO | GAO-17-783T

Note: For more information on alternative funding mechanisms, and examples from our prior work, see GAO, Capital Financing: Alternative Approaches to Budgeting for Federal Real Property, GAO-14-239 (Washington, D.C.: Mar. 12, 2014).

In 2014, we reported that projects with alternative funding mechanisms present multiple forms of risk that are shared between the agency and any partner or stakeholder. Further, we noted project decisions should reflect both the likely risk and the organization’s tolerance for risk. Incorporating risk assessment and management practices into decisions can help organizations recognize and prepare to manage explicit risks (e.g. financial and physical) and implicit risks (e.g. reputational). For

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14 GAO-14-239.
example, clearly defined lease terms may help agencies manage risks of costs for unexpected building repairs. Further considerations we noted in our 2014 report include the availability of an appropriate partner—and that partners should bring complementary resources, skills, and financial capacities to the relationship—and management of the relationship with that partner.

While different funding mechanisms have been used as an alternative to obtaining upfront funding for federal real property projects, changes to the budgetary structure itself—within the bounds of the unified budget that encompasses the full scope of federal programs and transactions—may also help agencies meet their real property needs. Such alternatives may include changing existing or introducing new account structures to fund real property projects. Our previous work identified options for changes within the current discretionary budget structure and options on the mandatory side of the budget.\footnote{GAO-14-239. For discretionary budget programs, Congress provides budget authority for programs in annual appropriations acts. For mandatory budget programs, Congress provides budget authority for programs in laws other than annual appropriations acts.} Alternative budgetary structures may change budgetary incentives for agencies and therefore help Congress and agencies make more prudent long-term fiscal decisions.

Chairman Barrasso, Ranking Member Carper, and Members of the Committee, this concludes my prepared statement. I am happy to answer any questions you may have at this time.

If you or your staff members have any questions concerning this testimony, please contact me at (202) 512-2834 or wised@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony are Mike Armes (Assistant Director), Colin Ashwood, Matt Cook, Joseph Cruz, Keith Cunningham, Alexandra Edwards, Carol Henn, Susan Irving, Hannah Laufe, Diana Maurer, John Mortin, Monique Nasrallah, Matt Voit, Michelle Weathers, and Elizabeth Wood.

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\footnote{GAO-14-239. For discretionary budget programs, Congress provides budget authority for programs in annual appropriations acts. For mandatory budget programs, Congress provides budget authority for programs in laws other than annual appropriations acts.}
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