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FEDERAL REAL
PROPERTY

Views on Real Property
Reform Issues

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to assist the Subcommittee in its consideration of H.R. 3947, the Federal Property Asset Management Reform Act of 2002. This bill would amend the Federal Property and Administrative Services Act of 1949, as amended, to enhance federal real and personal property management and bring the policies and business practices by which federal agencies manage their property into the 21st century. This statement is based on the work that we have performed within the last several years in the area of real property management including our recently released report on governmentwide real property data.¹

The U.S. government is one of the world's largest property owners. Available data show that the federal government owns hundreds of thousands of properties worldwide. These real property assets are very diverse and include military installations, office buildings, laboratories, courthouses, embassies, postal facilities, national parks, forests, and other public lands, estimated to be worth hundreds of billions of dollars. Overall, government-owned real property is under the custody and control of at least 30 federal agencies,² although most is under the jurisdiction of 8 agencies—the Departments of Agriculture, Defense, Energy, the Interior, and Veterans Affairs (VA); General Services Administration (GSA); the Tennessee Valley Authority; and the U.S. Postal Service.

As we and others have previously reported, federal property managers find themselves confronted with numerous challenges in managing this multibillion-dollar real estate portfolio, including a large deferred maintenance backlog, obsolete and underutilized properties, and changing facility needs due to rapid advances in technology. These challenges must be addressed in an environment marked by budgetary constraints and growing demands to improve service.

Although time constraints did not enable us to do a detailed analysis of each provision in this bill, we believe that a number of provisions in H.R. 3947 would go a long way toward helping agencies to recognize real property as a major component in carrying out their missions and

¹U.S. General Accounting Office, *Federal Real Property: Better Governmentwide Data Needed for Strategic Decisionmaking*, GAO-02-342 (Washington, D.C.: April 16, 2002).

²For purposes of this testimony, we are using the term agency to include all federal entities.

improving the federal government's management of its multibillion-dollar real property holdings. We generally support the provisions of this bill relating to improving real property management leadership and information and using enhanced asset management tools and incentives. However, the impact of this bill on property management will largely depend on how well its provisions are implemented. Given this, I would like to highlight some specific issues the subcommittee may wish to consider in its deliberation of H.R. 3947. These issues include the importance of having real property-holding agencies:

- link their real property strategic plans to their missions and related capital management and performance plans;
- ensure that senior real property officers have the knowledge, skills, and expertise needed to effectively perform their duties and be accountable for the reliability, usefulness, and timeliness of their real property data; and
- adopt an effective process to monitor and evaluate the implementation of any management tool authorized by the bill.

It is equally important that (1) GSA provide written guidance to agencies on the development of their business plans, specifically when they propose to use enhanced asset management tools authorized by the bill, as well as their property asset management plans and (2) Congress provide appropriate control and oversight regarding agencies' intended and actual use of the funds retained from real property transactions.

Now with that as a backdrop, Mr. Chairman, I would like to specifically comment on the aspects of this bill that are designed to (1) promote more effective property management leadership, (2) improve governmentwide real property information, and (3) provide enhanced asset management tools and incentives to make federal real property management more effective. These are areas where our past work has shown that improvements were needed and that federal agencies could use best practices of private and public organizations to achieve better results with regard to real property management and oversight.³

³U.S. General Accounting Office, *U.S. Infrastructure: Funding Trends and Opportunities to Improve Investment Decisions*, GAO/RCED/AIMD-00-35 (Washington, D.C.: February 7, 2000).

Property Management Leadership

H.R. 3947 would require the GSA administrator to take a leadership role, in consultation with the heads of other federal agencies and the director of the Office of Management and Budget (OMB), in establishing and maintaining a current set of real property asset management principles. We support this provision. Agencies would use these principles as guidance in making decisions about property planning, acquisition, use, maintenance, and disposal. The bill would also require the GSA administrator, in consultation with the heads of other landholding agencies, to establish performance measures to determine the effectiveness of federal real property management. Performance measures could address such areas as operating costs, security, occupancy rates, and tenant satisfaction. The performance measures should enable Congress and heads of federal agencies to track progress in the achievement of property management objectives on a governmentwide basis. This should allow Congress and the agencies to compare federal agencies' performance against the performance of private sector and other public sector agencies. In addition, these provisions would emphasize the importance of effectively managing the government's multibillion-dollar portfolio of federal real property assets, help facilitate a uniform approach to asset management, and assist federal managers in monitoring progress and measuring results.

Another important provision in H.R. 3947, which we support, is the establishment of a senior real property officer in each landholding agency that emphasizes the importance of having someone with real property experience oversee agencies' real property assets. This bill includes qualification requirements for the senior real property officer, such as real estate portfolio or facilities management experience. The senior real property officer would continually monitor real property assets to ensure that they are being used and invested in a way that supports the goals and objectives of the agency's strategic plan. This provision would make federal agencies with real property holdings accountable for the management and oversight of their real property assets.

One important feature of having senior real property officers is that they can be held accountable for providing reliable, useful, and timely data on their agencies' real property assets to GSA for inclusion into its worldwide inventory. As you know, using data from over 30 real property-holding agencies, GSA maintains a governmentwide real property database commonly referred to as the worldwide inventory. This database is the only central source of descriptive data of governmentwide real property assets. As we found during our recently completed review of this inventory, which I will discuss later in more detail, decisionmakers,

including Congress and OMB, currently do not have access to quality data for strategic management and budgeting purposes. Attempting to strategically manage and budget for the government's vast and diverse portfolio without quality data puts the government's real property operations at risk and can be likened to navigating the oceans of the world without the benefit of oceanographic charts.

Although the senior real property officers would be responsible for developing their agencies' real property asset management plans, there also is a need for guidance in establishing standards for the plans so they are developed in a consistent manner. The adequacy of these plans will play a key role in improving real property management and oversight throughout the government. Consequently, this would provide GSA with an opportunity, in its role as the government's real property manager, to develop and provide specific guidance for agencies to use in preparing their real property management plans. This guidance should describe the types of analyses to be included in the plans to support planned actions to be taken and conclusions reached in the plans. For example, the plan should include a discussion of the benefits to the agency or government that would result from the proposed actions, and it should provide an analysis of the asset performance necessary to deliver the required service outcomes over the duration of the asset strategy-planning period. We believe such guidance would help ensure that the strategic actions that agencies plan to take relative to their properties will best meet the intended service delivery outcomes defined in their strategic plans.

We envision that the senior real property officers would work together with three other senior agency officials—the chief financial officer (CFO), the chief information officer (CIO), and the head of human resources—to integrate the strategic planning and management of facilities, financial management, technology, and human capital to ensure that the agencies' asset management plans are linked to the agencies' overall missions and strategic plans. Given the significant responsibilities foreseen for senior real property officers, we believe that in addition to the qualification requirements specified in the bill, the officers should also have a recognized professional designation or certification, such as certified facility manager or real property administrator.

Real Property Information

H.R. 3947 would require the GSA administrator to establish and maintain a single, comprehensive, and descriptive inventory database of all real property interests under the custody and control of each federal agency. Subject to certain limitations, and as deemed appropriate by the administrator, portions of this database would be available to interested stakeholders and the public. We believe that a comprehensive, reliable listing of federal properties, as envisioned by H.R. 3947, is essential for the government to oversee and manage its large portfolio of federal assets. Lack of good data makes it difficult for the government to select the optimal level of capital spending needed for the acquisition and maintenance of real property. Inadequate data also impede the government's ability to identify real property assets that are no longer needed or cost effective to retain.

As I previously mentioned, GSA currently maintains a worldwide inventory of real property holdings. This week we reported that GSA's worldwide inventory of federal real property contained data that were unreliable and of limited usefulness. Worldwide inventory data for 12 of the 31 reporting agencies, which held an estimated 32 percent of the inventory in terms of building square footage, were not current in the most recent inventory report. In addition, the inventory did not contain key data—such as data related to space utilization, facility condition, historical significance, security, and facility age—that would be useful for budgeting purposes and the strategic management of these assets. Given this, decisionmakers, including Congress and OMB, do not have access to quality data on what real property assets the government owns; their value; whether the assets are being used efficiently; and what costs are involved in preserving, protecting, and investing in them. Without quality data, decisionmakers have difficulty strategically managing and budgeting for such significant real property management issues as deteriorating federal buildings, disposal of underutilized and unneeded properties, and the protection of people and facilities.

Consequently, we recommended, among other things, that the administrator of GSA exercise strong leadership and work with Congress, OMB, the Department of the Treasury (Treasury), and real property-holding agencies to design a cost-effective strategy for developing and implementing a reliable, timely, and useful governmentwide real property database. GSA agreed with the report's recommendations. Because there is a concern that GSA lacks specific statutory authority to compile the inventory, we also asked Congress to consider enacting legislation requiring GSA to maintain an accurate and up-to-date governmentwide inventory of real property assets and requiring real property-holding

agencies to submit reliable data on their real property assets to GSA. This would give GSA added leverage in obtaining the data it needs from other federal agencies.

GSA recognizes the problems associated with the worldwide inventory and has proposed several legislative initiatives in recent years to help correct the problems. This provision in H.R. 3947, if effectively implemented, can help GSA make the worldwide inventory a valuable resource. However, it is important to recognize that even if this provision is enacted, GSA will face formidable challenges in compiling reliable, timely, and useful data on federal real property. GSA will be challenged to identify and compile this data in a manner that the many real property-holding agencies, Congress, the Treasury, and OMB, agree is cost effective. Another challenge for GSA would be to work with participating agencies to make their real property databases capable of producing the common data that are needed to make the worldwide inventory an effective and valued resource.

Enhanced Asset Management Tools and Incentives

H.R. 3947 would also provide agencies with enhanced asset management tools and incentives for better property management. These proposed changes would give agencies the flexibility to establish real property portfolios that most appropriately, effectively, and efficiently meet the agencies' mission requirements. The bill provides four new enhanced asset management tools for effective management of federal property: (1) interagency transfers or exchanges, (2) sales to or exchanges with nonfederal sources, (3) subleases, and (4) outleases and public-private partnerships. In addition, H.R. 3947 provides incentives for agencies to use these enhanced asset management tools and dispose of excess property by allowing them to retain proceeds generated to pay expenses associated with the property and fund other capital needs. Currently, the law for most federal agencies requires that proceeds from the sale of federal land and buildings go either to the general treasury or the Land and Water Conservation Fund.

Within the last year we have issued two reports that addressed issues related to one of the enhanced management tools proposed in H.R. 3947—public-private partnerships. In our report on repairs and alterations, we said that GSA faced long-standing obstacles, including limited funding, in

reducing its multibillion-dollar inventory of repair and alteration needs.⁴ In this report, we asked Congress to consider providing the administrator of GSA the authority to experiment with funding alternatives, such as exploring public-private partnerships when they reflect the best economic value available for the federal government. The other report identified the potential benefits of allowing federal agencies to enter into public-private partnerships.⁵

A public-private partnership allows the federal government to lease federal property to a nongovernmental entity to develop, rehabilitate, or renovate the facilities on that property for use by federal agencies and/or private sector tenants. We hired consultants to develop and analyze hypothetical partnership scenarios for 10 judgmentally selected GSA properties. Appendix I contains a flowchart that shows how a public-private partnership may be structured. This work showed that 8 of these properties were potential candidates for a public-private partnership, and 2 did not appear to be viable candidates. We identified several potential net benefits to the federal government of entering into these public-private partnerships. These potential benefits included improved space, lower operating costs, and the conversion of buildings that are currently a net cost to GSA into net revenue producers. Location in a strong office real estate market with demand for federal and nonfederal office space and untapped value in underperforming assets were two key factors when considering properties for partnership opportunities. However, public-private partnerships will not necessarily be the best option available to address all real property issues. Ultimately, public-private partnerships and all other alternatives such as federal financing through appropriations or sales or exchanges of property would need to be carefully evaluated to determine which option offers the best economic value for the government.

Public-private partnership arrangements are not new to some federal agencies. Congress has previously provided statutory authority for some

⁴U.S. General Accounting Office, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed*, [GAO-01-452](#) (Washington, D.C.: April 12, 2001).

⁵U.S. General Accounting Office, *Public-Private Partnerships: Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships*, [GAO-01-906](#) (Washington, D.C.: July 25, 2001). See also, U.S. General Accounting Office, *Public-Private Partnerships: Factors to Consider When Deliberating Governmental Use as a Real Property Management Tool*, [GAO-02-46T](#) (Washington, D.C.: October 1, 2001).

specific public-private partnership projects. In addition, Congress has enacted legislation that gives VA and the Department of Defense (DOD) specific statutory authority to enter into such partnerships. We are currently evaluating issues related to DOD's implementation of the military housing privatization initiative.

H.R. 3947 would give the administrator of GSA the sole discretion to review and disapprove any transaction by agencies proposing to use enhanced asset management tools. The bill would require agencies to consult with GSA when developing their business plans for specific properties when they intend to use any enhanced asset management tools specified in the bill. A business plan outlines the scope of the project from an output and cost perspective, analyzes the cost and benefits associated with the project, and demonstrates that it has net benefit. In addition, a business plan should include an overview of the structure of the proposed arrangements as well as other elements. Consequently, the business plan is the key step in the decision-making process. Given GSA's role as the government's real property manager, other agencies would naturally look to GSA to develop and provide specific written guidance on how to develop their business plans.

We believe that federal asset managers need the proper tools, expertise, and knowledge to effectively manage and oversee federal assets. Given this, the tools provided in H.R. 3947 are steps in the right direction for agencies to begin exploring opportunities to better utilize federal assets. However, it is important to recognize that enhanced asset management tools may result in complex real property transactions. For example, in structuring public-private partnerships for individual properties, it must be remembered that each property is unique and thus will have unique issues that will need to be negotiated and addressed as the partnership is formed. In addition, great care will need to be taken in structuring partnerships to protect the interests of both the federal government and the private sector partner. The senior real property officers will need to have access to individuals with the appropriate knowledge, skills, and expertise when they decide to explore more complex real estate transactions authorized by the bill. The proposed enhanced asset management tools and other asset management tools currently available for real property management will also need to be carefully evaluated to ensure that they provide the best economic value and outcome for the government.

As I discussed before, H.R. 3947 would allow agencies to retain proceeds generated from the transfer or disposition of their property. Under the bill, agencies would be authorized reimbursement for their costs of disposing

of their property. The remaining proceeds would be deposited in agencies' capital asset accounts that would be authorized by the bill and could be used to fund capital asset expenditures, including expenses related to capital acquisitions, improvements, and dispositions. These accounts would remain available until expended.

In our April and July 2001 reports, we asked Congress to consider allowing GSA to retain the funds it received from real property transactions. Accordingly, we support the intent of these provisions. However, it is important to have effective congressional oversight over any receipts retained by agencies from real property transactions. In considering whether to allow federal agencies to retain the proceeds from real property transactions, it is important for Congress to ensure that it retains appropriate control and oversight over these funds, including the ability to redistribute the funds to accommodate changing needs if necessary. Congress has done this by using the appropriations process to review and approve agencies' proposed use of the proceeds from real property transactions. Another approach could be for Congress to require agencies to submit plans on how they intend to use the proceeds in their capital accounts and report on the actual use of the proceeds. H.R. 3947 makes no distinction between facilities and land in permitting agencies to retain asset sales proceeds. Since our work has focused on facilities, our conclusions regarding sales proceeds are limited to facility sales. Specific issues related to the retention of land sales proceeds may need to be studied further and separately addressed.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other members of the Subcommittee may have.

Contacts and Acknowledgements

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Appendix I: Partnership Structure

