United States Government Accountability Office

Report to the Chairman, Committee on Homeland Security and Governmental Affairs, U.S. Senate

March 2014

CAPITAL FINANCING

Alternative Approaches to Budgeting for Federal Real Property

GAO-14-239

GAO Highlights

Highlights of GAO-14-239, a report to the Chairman, Committee on Homeland Security and Governmental Affairs, U.S. Senate

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Alternative Approaches to Budgeting for Federal Real Property

Why GAO Did This Study

Federal real property projects are fully funded when Congress provides budget authority and appropriations for the estimated full cost of the projects up front—at the time they are undertaken. However, as agencies work to balance limited resources with mission demands, many have turned to approaches other than full upfront funding to acquire, renovate, or dispose of federal real property, such as buildings, structures, and land. GAO was asked to review alternative models for managing federal real property. This report examines (1) agency experiences funding federal real property projects, (2) some of the alternative funding mechanisms selected agencies use, as well as agency experiences using selected mechanisms, and (3) alternative budgetary structures within the current unified budget that may potentially help Congress and agencies better recognize the cost of real property projects and associated returns, promoting both transparency and fiscal control. GAO reviewed case study projects from 4 agencies among the top 10 in federal real property holdings and chosen based on their use of alternative funding mechanisms, as identified in our past and ongoing work. Finally, GAO identified alternative budgetary structures that may support real property projects and principles for considering them by reviewing published reports and interviewing federal budget staff and experts.

GAO is not making any recommendations in this report. GSA, USDA, VA, and Interior generally agreed with our findings. USDA, Interior and VA provided technical comments that were incorporated as appropriate.

View GAO-14-239. For more information, contact Susan J. Irving, Director for Federal Budget Analysis, at (202) 512-6806 or irvings@gao.gov.

What GAO Found

Officials at four selected agencies—the General Services Administration (GSA), U.S. Department of Agriculture (USDA), the Department of Veterans Affairs (VA), and the Department of the Interior (Interior)—experienced challenges receiving full upfront funding for federal real property projects through the annual appropriations process. For example, due to budget constraints, GSA acquired one property between 2008 and 2012. In addition, GSA has been unable to access funding to complete renovations in Interior's headquarters building due to obligation limitations in the GSA-administered Federal Buildings Fund (FBF). The FBF, which is the primary funding source for operating and capital costs associated with federal space, held an unobligated carryover balance of $4.7 billion at the end of fiscal year 2013 as a result of congressional limits on obligations. Officials noted that authority to retain proceeds provides a key incentive to initiate disposals, as agencies without this authority must request upfront funding for disposal costs while resulting proceeds are paid to the Department of the Treasury. Nonetheless, officials at selected agencies with the authority to retain disposal proceeds cited barriers to disposals, such as poor market demand, historical status or necessary remediation.

Instead of full upfront funding, selected agencies sometimes used a variety of alternative funding mechanisms to meet their real property needs by leveraging authorized monetary resources, such as retained fees, and non-monetary resources, such as property exchanged in a swap or space offered in an enhanced use lease. Alternative funding mechanisms are not universally available to all agencies; even within an agency, legal authorities may differ across agency components. For alternative funding mechanisms that involve working with a partner, such as in a land swap, the agency's ability to find an appropriate partner, manage that partnering relationship, and share risk—both explicit and implicit—with the partner affected project outcomes. For example, because of legal, cost, and other challenges, officials from USDA's Agricultural Research Service (ARS) said that ARS held onto land for about 10 years while seeking an appropriate partner to successfully complete the land swap.

Changes to the budgetary structure itself—within the bounds of the unified budget—might provide a more consistent way to meet real property needs while helping Congress and agencies make more prudent long-term fiscal decisions. Alternative budgetary structures should balance tradeoffs across two key GAO-identified budgeting and capital planning principles: (1) promoting transparency and fiscal control with regard to the funding of federal real property; and (2) providing agencies the flexibility to facilitate the acquisition, repair and alteration, and disposal of federal real property in support of federal missions. GAO provides alternative budgetary structure options for Congress to consider. For example, in one option Congress would make the full balance of the FBF available for funding real property projects, which could create room for additional agency flexibility but may reduce fiscal control. Another option would establish a government-wide capital acquisition fund with authority to borrow from the Federal Financing Bank for approved projects, which could improve transparency of both costs and benefits upfront and over time while business case analyses could provide a means of assuring fiscal control.

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Abbreviations

ARS	Agriculture Research Service
CAF	Capital Acquisition Fund
CBO	Congressional Budget Office
EUL	Enhanced Use Lease
FBF	Federal Buildings Fund
FFB	Federal Financing Bank
GSA	General Services Administration
Interior	Department of the Interior
NPS	National Park Service
OMB	Office of Management and Budget
PAYGO	Pay-as-you-go budget enforcement mechanisms
VA	Department of Veterans Affairs
VHA	Veterans Health Administration
USDA	United States Department of Agriculture

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
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March 12, 2014

The Honorable Thomas R. Carper
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Mr. Chairman,

The budget process is the federal government's primary resource allocation, financial planning, and control tool. Accordingly, it helps establish national spending priorities and the allocation of resources; it also helps ensure that the government spends taxpayers' money in accordance with applicable laws. Given the budget's dual functions, federal real property projects such as structures, buildings, and land are fully funded when Congress provides budget authority for the estimated full cost of projects up front (at the time they are undertaken). Such upfront funding recognizes the commitments embodied in budgetary decisions and maintains government-wide fiscal control. However, it can be challenging for agencies to make the case for such large commitments of funding as other critical needs compete for scarce federal dollars.

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. 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. Depending on the funding approach, the budgetary treatment of project costs may allow an agency to spread the asset cost over a number of years or monetary costs incurred may not be recognized in the budget. Because various funding approaches are reflected differently in the budget, resource allocation decisions for real property projects may not consider the full financial commitment the U.S. government is making. Further, costs for projects financed through alternative mechanisms may not be fully reflected in the budget request, whereas the costs for projects that require full upfront funding are fully reflected in the budget request. From an agency's perspective, meeting real property needs through alternative funding mechanisms can be attractive because the agency can undertake the project without first having to secure full upfront funding to cover the cost of the project. As a result, projects financed through alternative mechanisms may be selected over other equally worthy projects for which full upfront funding would be requested. From a government-wide perspective, however, the costs associated with some alternative funding mechanisms may be greater than full, upfront funding.[1]

In contrast to alternative funding mechanisms that agencies use to meet their real property needs, alternative structures within the budget, such as capital acquisition funds, have also been proposed. These proposed alternative budgetary structures serve as potential options to help agencies address their real property needs while minimizing costs to taxpayers. Ideally, any established alternative budgetary structure would reward prudent investment decisions from both an agency perspective and a long-term governmentwide perspective to maintain appropriate stewardship over federal resources.

You asked us to review alternative models for managing federal real property. This report examines (1) agency experiences funding federal real property projects; (2) some of the alternative funding mechanisms selected agencies use to help them in the acquisition, repair and alteration, and disposal of federal property, as well as agency experiences using selected alternative mechanisms; and (3) alternative budgetary structures within the current unified budget[2] that may help Congress and agencies better recognize the cost of real property projects and associated returns, and promote transparency and fiscal control in funding real property projects.

[1] For example, in 67 General Service Administration (GSA) leases we examined in a series of reports since 1995, the government could have saved almost $1 billion if it had constructed rather than leased space for federal agencies. See GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases*. GAO-13-744 (Washington, D.C.: Sept. 19, 2013).

[2] We have previously reported on the federal government's use of the unified budget. The unified budget allows the federal government to treat spending on real property projects like any current operating expense. The unified budget recognizes the federal government's involvement in national economic stability and growth, a responsibility that is uniquely federal and requires the government to focus on total spending in relation to total revenue. Reforms in how the federal government budgets for real property projects should be considered, but any capital budgeting allocation process should be studied within the overall constraints of a fiscal policy based on unified budget principles. See *GAO, Budget Issues: Budgeting for Capital,* GAO/T-AIMD-98-99 (Washington, D.C.: Mar. 6, 1998) and *Pros and Cons of a Separate Capital Budget for the Federal Government*. GAO/PAD-83-1 (Washington, D.C.: Sept 22, 1983).

To illustrate agency experiences funding federal real property projects and the alternative financing mechanisms they used to meet their real federal property needs, we selected nongeneralizable case study projects from the following four agencies:

- General Services Administration (GSA),
- United States Department of Agriculture (USDA),
- Department of Veterans Affairs (VA), and
- Department of the Interior (Interior).

These 4 agencies are among the top 10 agencies in federal real property holdings according to the fiscal year 2012 Federal Real Property Profile and U.S. Postal Service property data.[3] We also chose to select these four agencies based on their use of alternative funding mechanisms, as identified in our past and ongoing work.[4]

From these agencies, we selected nongeneralizable case study projects that used an alternative funding mechanism from fiscal years 2008 through 2012. Projects were selected based on agency data on real property projects, the dollar value of transactions, and analysis of interviews with agency officials. In some cases, projects were selected from subcomponents to illustrate use of available legal authorities. These projects are for illustrative purposes only and reflect variation in alternative funding mechanisms, but the results from these projects cannot be generalized more broadly. Selected case study projects are drawn from leases and acquisitions held and managed by GSA and the following agency subcomponents:

[3] For agencies with the largest federal real property holdings, see GAO, *Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Better Utilize Space*, GAO-12-779 (Washington, D.C.: July 25, 2012). We have previously reported that while sound data collection practices in designing and maintaining the Federal Real Property Profile database have not been followed, the Federal Real Property Profile can be used in a general sense to track assets. See GAO, *Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property*, GAO-12-645 (Washington, D.C.: June 20, 2012).

[4] GAO, *Budget Issues: Alternative Approaches to Finance Federal Capital*, GAO-03-1011 (Washington, D.C.: Aug. 21, 2003).

- Interior, National Park Service (NPS),
- USDA, Agricultural Research Service (ARS),
- USDA, Forest Service, and
- VA, Veterans Health Administration (VHA).

To understand selected agencies' experiences obtaining funding for real property projects and using alternative funding mechanisms, we analyzed relevant documentation related to agencies' real property projects. This included agency policies, budget documents, and reports to Congress. We reviewed relevant federal laws, regulations, and policies and analyzed relevant legal authorities. We interviewed cognizant officials at each of the selected agencies about their experiences obtaining funding for real property projects and using alternative funding mechanisms. We also interviewed officials involved in the selected real property projects. These nongeneralizable case studies were chosen to illustrate a range of alternative funding mechanisms. To develop themes and examples from our documentary and testimonial evidence, we analyzed information from relevant documents and interviews to identify and confirm common patterns across our selected agencies. We did not independently verify the descriptions or outcomes of the real property projects nor did we interview organizations that partnered with agencies.

Finally, to guide our consideration of alternative budgetary structures, we reviewed published reports and interviewed federal budget staff and experts. To identify principles that could help Congress and agencies recognize the cost of real property projects and associated returns, and promote transparency and fiscal control in funding real property projects, we reviewed our prior reports and external sources, such as Office of Management and Budget (OMB) guidance and the report of the President's Commission on Budget Concepts. We then reviewed our reports and external literature to identify funding structures that could help support real property projects. From this review, we identified and explored various options which we compared to proposed changes within the current unified budget. We also used this literature to identify possible implications—a list which is not exhaustive—if identified options were to be adopted. We then interviewed federal budget staff from the Congressional Budget Office (CBO) and OMB as well as industry experts to obtain their views on the benefits and challenges of the alternative budgetary structures that we identified. We contacted the National Federal Development Association, a trade association representing organizations and individuals that provide real estate services to the federal government. This association referred us to an industry expert with more than 25 years of experience in federal government real estate.

In addition, we spoke with a past congressional witness with extensive experience on federal real estate and budgeting experience at both OMB and CBO. Finally, we shared these alternative budgetary structures with our selected agencies to obtain their views.

We conducted this performance audit from May 2013 to March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Since 2003, we have identified managing federal real property, including effectively managing excess and underused property and an overreliance on leasing, as a high risk issue facing the federal government. In June 2010, the President directed agencies to achieve real property cost savings through a number of measures, including disposal of excess real property and reducing leasing through consolidations and increased space utilization.[5] In 2011, the administration proposed legislation, known as the Civilian Property Realignment Act (commonly referred to as CPRA), and accompanying bills were introduced in both legislative chambers, which would identify opportunities to consolidate, reduce, and realign the federal footprint as well as expedite the disposal of properties by building off the military base realignment and closure (commonly referred to as BRAC) processes.[6] In May 2012, OMB issued a memorandum directing agencies to not increase the size of their civilian real estate inventory, stating that increases in an agency's total square footage of civilization property must be offset through consolidation, co-location, or disposal of space from the inventory of that agency, a policy that became known as "freeze the footprint." As a result, acquisition has

[5] *Memorandum—Disposing of Unneeded Federal Real Estate—Increasing Sale Proceeds, Cutting Operations Costs, and Improving Energy Efficiency*, 75 Fed. Reg. 33987 (June 16, 2010). We have previously reported on agencies' reported cost savings in response to the June 2010 memorandum. GAO, *Federal Real Property: Improved Standards Needed to Ensure That Agencies' Reported Cost Savings Are Reliable and Transparent*. GAO-14-12 (Washington, D.C.: Oct. 29, 2013)

[6] Letter from Jacob J. Lew, Director, Office of Management and Budget, to The Honorable Joseph R. Biden, President of the Senate (May 4, 2011)

become more about consolidation and identifying opportunities to share space rather than acquiring new space.

Pursuant to the Government Performance and Results Modernization Act, OMB identified real property as a Federal Government priority goal.[7] Agencies are currently working on 3-year Revised Real Property Cost Savings and Innovation Plans to maintain the fiscal year 2012 square footage baseline for federal office and warehouse inventory. Agencies have been encouraged to work collaboratively with other agencies and GSA to find opportunities for smarter space usage through co-locations and consolidations. We have previously reported that real property decisions draw considerable attention during congressional deliberations over federal appropriations. Stakeholders such as Congress, OMB, and the real property-holding agencies have an interest in how the federal government carries out its real property acquisition, management, and disposal practices.[8]

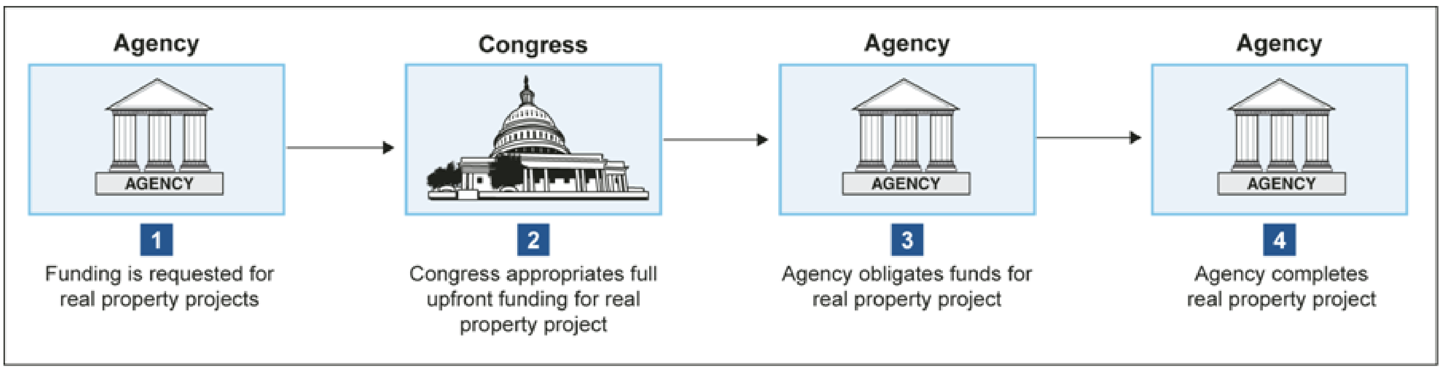
Ideally, when an agency has a real property need, such as repairing or altering its headquarters building, it determines how to meet that need through internal prioritization and the capital planning process. As part of the capital funding process, shown in Figure 1, an agency prepares a business case analysis and considers how to fund the project, including whether to request upfront funding. If an agency chooses to request upfront funding from Congress, it submits a business case to Congress through the annual appropriations process. If Congress approves the project, it may authorize spending for the project by appropriating full upfront funding to the agency. Once an agency has obtained upfront

[7] The Government Performance and Results Modernization Act requires in part that the federal government set cross-agency priority goals which are outcome-oriented and improve management across the federal government in areas of information technology, financial management, human resources, and real property. Pub. L. No. 111-352, § 5, 124 Stat. 3873 (Jan. 4, 2011).

[8] These stakeholders include state and local governments, business interests in the communities where the real property 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 their communities. At both the national and local levels, federal real property practices also often attract significant media attention, particularly when these practices are under scrutiny for waste and mismanagement. See GAO, *Federal Real Property: Progress made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*. GAO-07-349 (Washington, D.C.: April 13, 2007).

funding, it can obligate funds to complete "useful assets"[9] of the project. During implementation as well as at completion of the project, an agency may realize returns, such as proceeds from disposal. The completion of the project informs agency prioritization and ongoing planning for future real property projects.

Figure 1: The Process of Obtaining Upfront Funding through the Annual Appropriations Process



Source: GAO analysis.

Budget Scorekeeping

Budget scorekeeping rules are meant to recognize costs as funding decisions are being made. These rules were established to ensure that the scorekeepers—that is, the House and Senate Budget Committees, the CBO, and OMB—can measure the effects of legislation consistently and conclude that they meet specific legal requirements. These rules are also used by OMB for determining amounts to be recognized in the budget when an agency signs a contract or enters into a lease.

[9] A useful asset is an economically and programmatically separate segment of procuring an asset or whole asset. The total asset procurement may include one or more useful assets. *Preparation, Submission, and Execution of the Budget*, app. J OMB Circular No. A-11 (2013).

Scorekeeping in the Federal Budget

What is scorekeeping?

Scorekeeping is the process of estimating the budgetary effects of pending legislation and comparing them to a baseline. The process allows Congress to compare the cost of proposed budgetary policy changes to existing law and to enforce spending and revenue levels agreed upon in the budget resolution.

Who are the scorekeepers?

Guidelines are established by the OMB, the CBO, and the Senate and House Budget Committees. Scorekeepers have an ongoing dialogue and may revise rules as required. Budget Committees and CBO apply the rules to estimate the costs associated with proposed legislation. OMB uses the rules to determine amounts to be recognized in the budget when an agency signs a contract or enters into a lease. The House and Senate Budget Committees make available monthly summary scorekeeping reports.

Source: GAO analysis of Title 2 of the U.S. Code and OMB guidance.

We have previously found that upfront funding is the best way to ensure recognition of commitments embodied in budgeting decisions and maintain government-wide fiscal control.[10] As shown below, under scorekeeping rules, for a purchase or a capital lease the full cost of the project must be recorded in the budget in the year in which the budget authority is to be made available.[11] In contrast, operating leases are intended for short-term needs, and under the scorekeeping rules, only the amount needed to cover the first year's lease payments plus cancellation costs need to be recorded in the budget in that year.

[10] See GAO, *Understanding Similarities and Differences between Accrual and Cash Deficits*, GAO-07-117SP (Washington, D.C.: December 2006).

[11] When capital assets are purchased, the budget recognizes the full cost up front to provide decision-makers with the information and incentives to make efficient decisions at the only time that they can control the cost. However, under the accrual basis of accounting used in the financial statements, the cost of the asset is initially recorded on the balance sheet. The cost of the asset is then spread over its expected useful life to match the asset's cost with its use.

Summary of Scorekeeping Guidelines for Purchases and Leases

When an agency is granted the authority to enter into a contract for the purchase, lease-purchase, capital lease, or operating lease of an asset, budget authority and outlays may be scored as follows:

- **Lease-purchases and Capital Leases:** budget authority will be scored against the legislation in the year in which the budget authority is first made available in the amount of the estimated net present value of the government's total estimated legal obligations over the life of the contract, except for imputed interest and identifiable operating expenses.
- **Operating leases:** budget authority will be scored against the legislation in the year in which the budget authority is first made available in the amount necessary to cover the government's legal obligation. The amount scored will include the estimated total payments expected to arise under the full term of the lease contract, or, if a cancellation clause is included in the lease, for the first fiscal year and the amount of cancellation costs.[12]
- **Purchases:** no special rules apply to scoring purchases of assets (whether the asset is existing or is to be manufactured or constructed). Budget authority is scored in the year in which the authority to purchase is first made available in the amount of the government's estimated legal obligations.

To distinguish lease purchases and capital leases from operating leases, the following criteria will be used for defining an operating lease:

- Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the government at or shortly after the end of the lease period.
- The lease does not contain a bargain-price purchase option.
- The lease term does not exceed 75 percent of the estimated economic lifetime of the asset.
- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease.
- The asset is a general purpose asset rather than being for a special purpose of the government and is not built to unique specification for the government as lessee.
- There is a private-sector market for the asset.

Source: GAO analysis of OMB Circular No. A-11

Using an operating lease—or successive operating leases—for a long-term space need may result in resource allocation decisions for which the

[12] For operating leases funded by GSA's FBF, which is self-insuring under existing authority, only the amount of budget authority needed to cover the annual lease payment is required to be obligated.

budgeting process may not have considered the full financial commitment over the full length of time the space need exists. Consequently, costly operating leases may appear on paper to be preferable to less-costly alternatives such as major construction or renovation projects that must compete for full funding.

GSA's Role

Within the vast portfolio of government owned and leased assets, GSA plays the role of broker and property manager to many federal civilian agencies, although some agencies—including USDA, VA, and Interior—have independent authority related to real property. GSA has a large portfolio of federally-owned and leased properties that it rents to its federal agency customers. As of fiscal year 2011, GSA had a total of 374.6 million rentable square feet in its inventory, of which 192.7 million—slightly more than half—were leased.

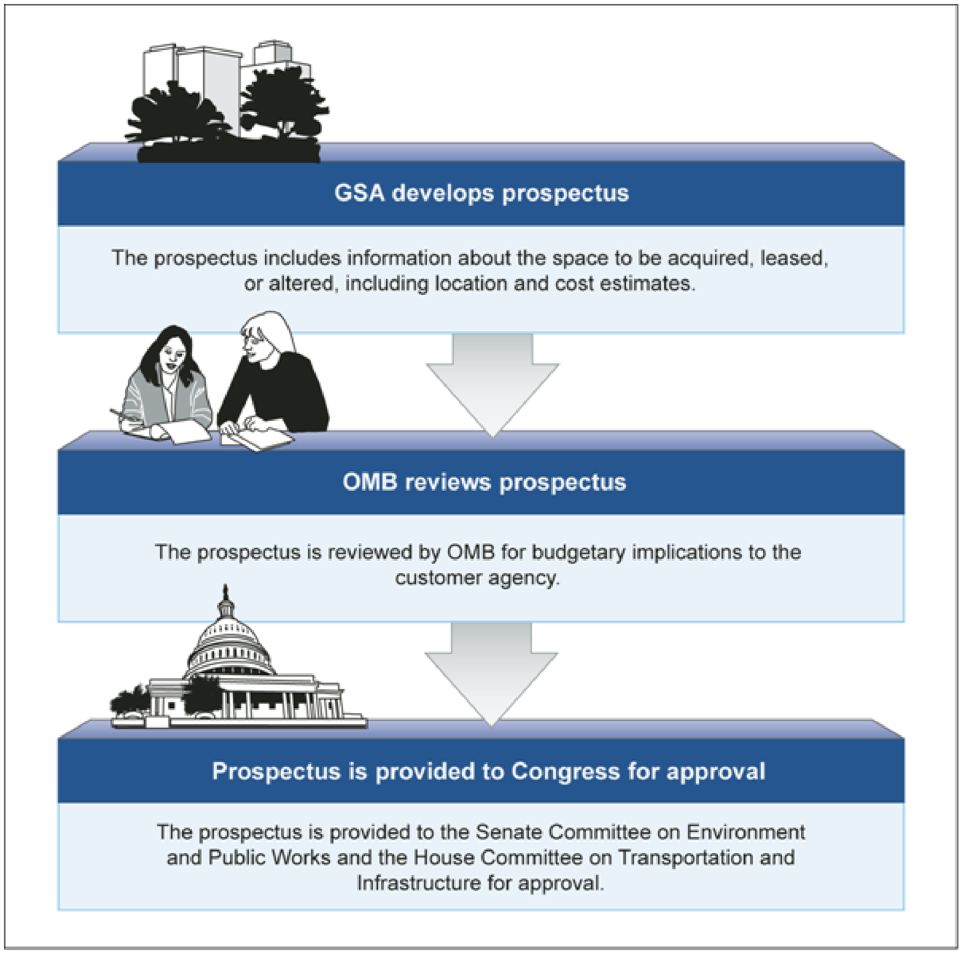
The Federal Buildings Fund (FBF), administered by GSA, is a fund established by the Public Buildings Act Amendments of 1972. The FBF is the primary source of funds for operating and capital costs associated with federal space. The FBF is funded primarily by income from rental charges assessed to tenant agencies occupying federally owned and GSA-managed and -leased space that approximate commercial rates for comparable space and services.[13] Congress exercises control over the FBF through the appropriations process that sets annual limits on how much of the fund can be obligated for various activities. In addition, it periodically provides supplemental appropriations for the Fund. For example, the Fund received $5.6 billion as part of the American Recovery and Reinvestment Act of 2009.[14] GSA may incur obligations and make expenditures from the FBF in five categories of activities: (1) rental of space, (2) repairs and alterations, (3) construction and acquisition of facilities, (4) building operations and maintenance, and (5) installment acquisition payments (funds debt incurred as the result of building acquisition and lease purchase arrangements). Revenue from the

[13] GSA appraises its inventory on a 5 year cycle—approximately 20 percent of its owned inventory annually—and charges rent based on rates for comparable assets in the private sector. GSA charges its tenants in space leased from the private sector rates equal to the cost of the lease plus either a 7 percent (for cancelable assignments) or 5 percent (for noncancelable assignments) administrative fee to cover its management costs.

[14] American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, div. A, title V, 123 Stat. 115, 149 (Feb. 17, 2009)

federally-owned facility inventory managed by GSA is the main source of the FBF's operating income used to fund repair and alteration, new construction activities, and operations and maintenance. By statute, GSA is required to provide a prospectus for each proposed lease with a net annual rent above the prospectus threshold—$2.79 million in fiscal year 2013, which GSA's Administrator is authorized to adjust annually—or capital project over that threshold, including acquisition, new construction, and repair and alteration projects. As shown in Figure 2, each prospectus is reviewed and approved by both OMB and Congressional authorizing committees.

Figure 2: Prospectus Process for Approval of High-Value Federal Building Fund Transactions



Source: GAO analysis of GSA data.

GSA has not conducted 30-year present value analyses as part of its prospectus process since the mid-1990s, as advised by OMB. Such analyses help weigh the cost over time of leasing versus owning an asset to promote efficient resource allocation for the civilian agencies within GSA's real property portfolio. In September 2013 we reported that the decision to halt this type of formal analysis for high-value leases has limited the transparency of the prospectus process. We recommended that lease prospectuses include a description of the length of time an agency estimates a need for a space, how long the agency has leased that particular space, and major investments necessary. For spaces for which an agency has a long-term projected need, we recommended that GSA include an appropriate form of cost-to-lease versus cost-to-own analysis. GSA concurred with this recommendation.[15] Although at times leasing versus owning analyses found leasing to be a more cost effective option, it often concluded that ownership would be cheaper than leasing; however, in many cases where ownership was found to be the better option, GSA ultimately recommended leasing due to funding constraints.[16]

Case Study Agency Officials Experienced Challenges Receiving Full Upfront Funding for Federal Real Property Projects

Officials at four selected agencies—GSA, USDA, VA, and Interior—experienced challenges receiving full upfront funding for federal real property projects through the annual appropriations process. For example, GSA officials told us that obtaining upfront funding through appropriations is difficult and thus presents a barrier to ownership, resulting in a reliance on leased space.[17] USDA officials said that, given current fiscal pressures, they do not routinely request acquisition funds. Interior officials told us that the Department has had a moratorium on new construction since 2010 and that any upfront funding received through the annual appropriations process goes towards necessary renovations to existing property. Although VA requests and receives appropriations for some real property construction projects, it has a significant backlog of incomplete major construction projects that have not received funding. The Veteran's Health Administration (VHA) requested $215 million for major construction funding in fiscal year 2014 and estimates that it would require $5.8 billion to address its current backlog.

Budget constraints have resulted in limited acquisitions at GSA, Interior, and USDA. For example, GSA's sole acquisition between 2008 and 2012

[15] GSA continues to include the results of an alternatives analysis in its prospectuses for capital construction and renovation projects but does not do so in its prospectuses for leases. See GAO-13-744.

[16] See GAO-13-744.

[17] In past work, we have found that GSA relies heavily on high-priced operating leases to meet new long-term needs because it typically lacks the upfront funding needed to purchase buildings or space. For example, in 2007, we reported that although building ownership options through construction or purchase are generally the least expensive ways to meet agencies' long-term space needs, GSA relied heavily on operating leases to meet new long-term needs because it lacked funds to pursue ownership. See GAO-13-744 and GAO, *Federal Real Property: Progress Made Towards Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, GAO-07-349 (Washington, D.C.: Apr.13, 2007.)

resulted from exercising a purchase option on a preexisting lease. GSA renewed its lease at Columbia Plaza in Washington, D.C. for the Department of State (State) in 1992.[18] As part of an agreement to invest $30.6 million in renovations to the building at that time, GSA was directed by congressional resolution to "attempt to include a purchase option in the lease contract." GSA did not have the option to purchase the building in 1992 but it negotiated a purchase option as part of the terms of the 20-year lease. As the expiration of the lease neared, GSA concluded that a mission need for the building remained and that acquiring the building would be financially advantageous. Under the original contract, GSA could purchase the building for $100 million though the 2009 appraised value was $150 million. A 30-year present value analysis concluded that acquiring the building would result in an annual cost advantage of $12 million over continuing to lease and, in 2012, GSA exercised its purchase option. Because State was already occupying Columbia Plaza, GSA officials said that they mitigated a portion of the acquisition cost by avoiding certain costs typical to the construction process including acquiring land, phased funding for construction, paying for interim office space, and final relocation to the new space. However, purchase options may cost more over the life of a lease than buying a building upfront.[19] Figure 3 shows that although the contract purchase price was $100 million, adding in the initial renovation costs and lease payments made over the 20-year term, in total the acquisition cost to the government was $258 million.

[18] Columbia Plaza's close proximity to State's headquarters building makes it a desirable office space for State's purposes. GSA has leased space in Columbia Plaza since 1974.

[19] GSA officials stated that while a purchase option as part of a lease agreement can be advantageous in the right circumstances, GSA carefully considers its inclusion when negotiating a contract because a purchase option often includes a premium factored into the terms of the lease.

Figure 3: Total Costs for Columbia Plaza Transaction Included Initial Renovations and Lease Payments

Source: GAO analysis of GSA data.

[a]Rental data excludes tax reimbursements.

[b]Fiscal year 2012 includes both lease payments made in that year and the property purchase price.

Limitations on obligations constrain funding for real property, especially for repairs, alterations, and new construction. The difference between receipts collected in the FBF and the amount authorized for annual obligations affected one of our case study agencies that rents property through GSA. Interior officials said that GSA has been unable to obtain FBF funding through the annual appropriations process to complete renovations in Interior's federally-owned and GSA-managed headquarters building. As a result, Interior officials said that they have not been able to realize the savings they anticipated for a full renovation, such as energy savings. The FBF's balance has increased significantly in recent years, growing from $56 million at the beginning of fiscal year 2007 to $4.7 billion at the end of fiscal year 2013.[20] As we previously reported, the increased balance has primarily resulted from the growing difference between the resources deposited into the FBF and the level of funds GSA

[20] See GAO, *Federal Buildings Fund: Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities*, GAO-12-646 (Washington, D.C.: July 12, 2012)

is authorized to spend. GSA officials noted that when Congress provides less obligational authority than requested, repairs, alterations, and new construction projects for GSA-managed buildings are most affected because available funds are first used to pay leasing, operations and maintenance, and debt costs. As a result, GSA's obligations authority for repairs and alterations projects decreased from $855 million in 2005 to $280 million in 2012.[21] GSA officials noted that when prioritizing requests for repair and alteration projects, they consider asset condition and performance; life safety and compliance with laws and regulations; customer considerations, including consolidation and reduction in space; financial viability, including lease cost avoidance; and improvements to utilization rates and recapturing vacant space.

With regard to the disposal of federal property, officials at USDA, which has authority to retain proceeds from sales and disposals, cited financial obstacles to these initiatives, such as little market demand. For example, USDA's Forest Service was given authority in 2005 to retain proceeds from disposals;[22] it typically uses these funds for critical maintenance work on its properties or to prepare other buildings for sale. Forest Service officials said that except for a few administrative buildings in affluent areas sold for a high return, the return on investment for disposals, often for structures on land Forest Service would like to retain, is minimal. In 2011, the Forest Service reported that it would cost $120 million to dispose of property with a salvage value of $5 million.

Non-financial barriers to disposal also exist, resulting in underused agency property. These obstacles include remote locations, necessary environmental cleanup, or limitations on the use of property. Historically significant properties are also challenges. For example, VA officials said that VA's historical buildings often require significant cleanup and preparation prior to disposal, and the agency must often address significant stakeholder interests. In addition, VHA's buildings are often on campuses or are medical facilities, limiting potential buyers or lessees to those with missions similar to VA. VHA currently has about 250 vacant buildings with no defined need, totaling more than 4 million square feet. Interior officials stated that the land Interior owns is primarily stewardship

[21] Obligational authority includes adjustments due to reprogramming and rescissions.

[22] Forest Service Facility Realignment and Enhancement Act of 2005, Pub. L. No. 109-54, title V, §505, 119 Stat. 499,563 (Aug. 2, 2005).

land for preservation, and thus Interior has few buildings or land to sell. Instead, excess buildings on stewardship lands are typically demolished. To facilitate the disposal of excess property, Interior includes funding for disposals as part of its planning process—it requires each bureau to set aside 3 percent of its property budget for disposals of excess property.

Officials at GSA and USDA noted that the authority to retain proceeds provides a key incentive to initiate disposal transactions. For example, officials at GSA, which provides disposal services across the federal government, stated that the vast majority of current disposal transactions are by agencies or components that have the authority to retain the proceeds from sales or disposals. They also said that agencies without this authority may have less incentive to dispose of underused property as they must take money from competing budget priorities to invest in readying a property for sale. USDA officials said that because resulting proceeds are remitted to the general fund of the U.S. Treasury as miscellaneous receipts, components without authority to retain proceeds have little incentive to request full upfront funding for disposal costs such as site cleanup, resource surveys, title and legal preparation, and auction fees.

Alternative Funding Mechanisms Helped Agencies Meet Their Real Property Needs, but Also Posed Challenges

Agencies Use a Variety of Funding Mechanisms to Meet Their Real Property Needs

Selected agencies have been authorized to use a variety of funding mechanisms as an alternative to full upfront funding to meet their real property needs. Funding mechanisms leverage both monetary resources, such as retained fees, and non-monetary resources, such as property exchanged in a land swap or space offered in an enhanced use lease

(EUL).[23] 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 in the private sector. 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. Table 1 outlines selected funding mechanisms, considerations for each mechanism based on our past work, and examples of mechanisms used by the selected agencies. Appendix III identifies prior reports where we provide more information on alternative funding mechanisms.

[23] GAO has done previous work on VA's use of EULs to redevelop underutilized federal real property. For more information, see 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 Funding Mechanism Definitions, Considerations, and Related Case Studies

Mechanisms	Considerations based on past work	Case study examples	Case study outcomes
Operating lease used to meet long-term need			
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.	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.[a] 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.[b]	GSA: Operating Lease for NPS in Washington, DC NPS relocated to leased space due to the renovation of Interior's Headquarters in the early 2000s. In 2002, GSA consolidated multiple NPS components to 1201 Eye Street, NW, Washington D.C. GSA was approved through the prospectus process to extend the lease in 2012 for 15 more years and utilize the space more efficiently.	GSA acquired leased space needed to help transition NPS to federally owned space. GSA is exploring opportunities to reduce costs by moving the entire NPS requirement into federally owned space.
		GSA: Operating lease for NPS in Lakewood, Colorado Although GSA considered construction, GSA entered into a replacement operating lease in Lakewood, Colorado, which allowed NPS to consolidate offices in 2 locations into one office with more efficient space utilization.	NPS annual lease payments were over $1.3 million less than requested in the prospectus.

Mechanisms	Considerations based on past work	Case study examples	Case study outcomes
Land swap			
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.	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.[c] 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.[d]	USDA, ARS: Land swap with city of Ames, Iowa ARS exchanged land with the city of Ames, Iowa to meet its need for land near its facility outside the city of Ames to use for the disposal of manure from diseased animals used in experiments. ARS had land in Ames it could not use for this purpose that the city of Ames sought to use to build a new water treatment plant. The city acquired land for the sole purpose of completing the exchange with ARS.	ARS was able to dispose of excess property in one location and acquire land better situated for its needs. ARS officials reported that the land swap was more efficient and environmentally sustainable than building an expensive incinerator. A land swap requires both a land disposal process and an acquisition process. As a result, ARS officials noted it was time intensive.
		VA, VHA: Land swap with city of New Orleans, Louisiana The New Orleans Replacement VA Medical Center Project will construct a new medical center to replace one damaged in Hurricane Katrina. The city of New Orleans, through Louisiana State University on behalf of the state of Louisiana, acquired voluntarily and when necessary through eminent domain approximately 30 acres of downtown New Orleans property that it transferred to VA. In return, VA will transfer the existing damaged medical center to the city following activation of the new medical center.	The land swap allowed VA to continue providing medical services while the new facility was under construction. The city of New Orleans worked with the state of Louisiana to obtain the property that the city swapped with VA voluntarily and when necessary through eminent domain, ensuring the availability of appropriate space.

Mechanisms	Considerations based on past work	Case study examples	Case study outcomes
Retained fees			
Proceeds that result from business-type or market-oriented activities with the public, such as the collection of user fees.	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.[e]	Interior, NPS: Herring Cove Beach and Nauset Light Beach in Provincetown and Eastham, Massachusetts NPS used recreation fees to fund repairs designed to protect the facilities from beach erosion, improve pavement and outdoor amenities, and replace the septic system. The building was renovated with new energy efficient features and moved further back from the shoreline.	Officials reported that using retained fees allowed NPS to complete high priority repairs more quickly than if NPS had requested appropriated funds.
Enhanced use lease (EUL)			
An EUL 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.	The agency acts as the lessor–rather than lessee. The project is limited by the need to find an appropriate partner.[f]	VA, VHA: Transitional Housing and Homeless Support Services in Dayton, Ohio The VA leased excess space to the Volunteers of America of Greater Ohio. The lessee renovated, operated, and maintained one building on property leased from VA. In addition to lease payments, the lessee provided 50 units of transitional housing beds and related supportive services to eligible veterans and non-veterans.	VA was able to avoid costs associated with building maintenance, property maintenance, and outpatient and domiciliary services.

Source: GAO analysis of documentation and interviews from selected agencies, the Office of Management and Budget, and prior GAO work.

[a] For example, see GAO-13-744.

[b] For example, see GAO-13-744.

[c] For example, see GAO-03-1011.

[d] For example, see GAO-03-1011.

[e] For example, see GAO-03-1011.

[f] See for example GAO, Federal Real Property: Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions, GAO-08-939 (Washington, D.C.: Sep. 10, 2008) and GAO, Congressionally Chartered Organizations: Key Principles for Leveraging Nonfederal Resources, GAO-13-549 (Washington, D.C.: June. 7, 2013).

Alternative funding mechanisms are not universally available to all agencies. Moreover, even within an agency, legal authorities may differ across agency components. For example, the Forest Service and ARS—both components of USDA—have different legal authorities to use alternative funding mechanisms. For example, the Forest Service has the authority to retain fees and ARS has the authority to enter into land swaps.

Instead of upfront funding, NPS uses retained recreation fees to fund high-priority projects linked to visitor need. NPS's recreation fees, which are authorized by the Federal Land Recreation Enhancement Act, require that not less than 80 percent of retained recreation fees be spent at the site at which fees are collected while the remaining 20 percent is pooled to fund projects that are national priorities. This 20 percent of the retained recreation fees provides NPS additional flexibility. In 2011 Interior determined that it would request line item construction funds in fiscal year 2014, but later identified fiscal year 2012 funds from an alternative funding mechanism, retained recreation fees, for the Herring Cove and Nauset Light Beach facilities renovations in Massachusetts, negating the need to seek additional funding. Interior has internal processes for prioritizing projects for line item budget requests and for allocating the retained recreation fees to high-priority projects, which NPS officials reported allowed Interior to complete the renovations more quickly than would have otherwise been possible with full upfront funding.

In 1991, Congress authorized VA to enter into EULs. VA's available legal authorities also framed its 2008 decision to enter into an EUL with a nonprofit organization in Dayton, Ohio. VHA's partner in the EUL leveraged nonfederal funds to renovate a building and provide housing and services to homeless veterans. The Dayton, Ohio Veterans Affairs Medical Center had underused historic buildings. Officials reported that the buildings' historic status made it difficult to dispose of or demolish the buildings.[24] The Volunteers of America of Greater Ohio approached VA about entering into an EUL; they agreed to provide 50 beds of transitional housing and related services to homeless veterans in the property that VA wanted to take off its inventory in exchange for financial and nonfinancial considerations. VA determined that renovating the building

[24] Officials reported historic status, stakeholder interest, and legal authorities are challenges to disposing of or demolishing buildings.

with appropriated funds would result in the highest upfront costs to VA and would forgo the benefit of any private-sector funding or participation. VA accepted the Volunteers of America's proposal and the Volunteers of America paid VA rent for the space and were responsible for renovating, operating, and maintaining the building as well as for providing housing and services to homeless veterans. By partnering with the Volunteers of America on this EUL, VA estimated that it has cumulatively achieved almost $2.8 million in cost avoidance and that the project has provided services valued at more than $2 million while costing the VA less than $500,000. Without the authority to enter into EULs or other alternative funding mechanisms, VA officials said that VA would not have been able to move forward with this project. VA's EUL authority was amended in 2012. VA may no longer accept in-kind consideration for EULs and may only enter into an EUL for the provision of supportive housing.[25]

Risk Sharing, Managing Stakeholder Relationships, and Other Factors Affect Project Outcomes

Projects with alternative funding mechanisms involve multiple forms of risk—both implicit and explicit—that must be shared between the agency and any partner or stakeholder. We have previously reported that project decisions should reflect both the likely risk and the organization's tolerance for risk. Incorporating risk assessment and risk management practices into decisions can help ensure that the organization recognizes and is prepared to manage explicit risks (e.g., financial and physical) and implicit risks (e.g., reputational).[26] For example, clearly defined lease terms helped VA manage financial risk associated with the Dayton, Ohio EUL when its partner sought to share costs for unexpected building repairs for the building leased. During renovation, asbestos was discovered in the building and VA's partner sought a financial contribution from VA to help offset some of the cost of the cleanup. Because the contract clearly held the partner financially responsible for unexpected expenses, VA was not liable for the cleanup costs.

We have also previously reported that when working with a partner, it is important to actively manage the relationship.[27] Formalizing collaborations

[25] Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012, Pub. L. No. 112-154, title II, § 211, 126 Stat. 1165, 1179-1180 (Aug. 6, 2012).

[26] See GAO, *Congressionally Chartered Organizations: Key Principles for Leveraging Nonfederal Resources*, GAO-13-549 (Washington, D.C.: June. 7, 2013).

[27] See GAO-13-549.

between the partners, including documenting dispute resolution processes, can enable productive partner interactions. For example, VA stepped in to more actively engage its partner, the city of New Orleans, in a land swap to build a hospital after Hurricane Katrina. To monitor project timelines and goals, officials representing all partners—including VA's Chief of Staff, the logistics manager and city counterparts—participated in a steering group. When it became apparent that the city of New Orleans was unable to meet its initial goal of having the property in construction-ready condition within 1 year as outlined in a memorandum of understanding (MOU), the group began to meet weekly. VA and the city of New Orleans amended the MOU to permit phased delivery of the construction ready site. Additionally, New Orleans VA Medical Center continued to have quarterly meetings with the community. Officials reported that early coordination contributed to increased efficiency and improved outcomes and helped the project overcome challenges such as managing to meet different federal and state fiscal years and funding cycles, as well as different federal, state, and local policies.

In addition to an agency's ability to share risk and manage stakeholder relationships, the availability of an appropriate partner and the geographic location of the property may affect the use and success of an alternative funding mechanism. We have previously reported that partners should bring complementary resources, skills, and financial capacities to the relationship.[28] Agency officials reported that the geographic location and the condition of a property can make it difficult to locate a willing buyer and expensive to dispose of the property. For example, according to Forest Service officials, many of the structures that may be disposed of are of little value and are on land Forest Service will retain, such as a cabin in the woods. Additionally, these facilities may be located in remote areas that are difficult and costly to access with the construction equipment necessary for demolition. As part of the auction process, Forest Service typically asks for bids at salvage value and requires that the structure be removed from the property at the buyer's expense. However, because of the expense to the buyer of the building removal and any necessary environmental remediation, properties are usually sold for low prices. The Forest Service benefits from selling the property—even for a low value— because it is no longer financially responsible for costs such as maintenance, demolition, property removal, and

[28] See GAO-13-549.

environmental remediation. For example, ARS needed to acquire land or build an incinerator to dispose of excess manure. ARS does not have the legal authority to purchase land valued at more than $100 and the incinerator would have been significantly more expensive than this limit, prompting ARS to consider a land swap. Because of these legal, cost, and anticipated stakeholder challenges, ARS officials said that ARS held onto the land for about 10 years while seeking an appropriate partner with whom to exchange land. When ARS identified an appropriate partner, it completed a land swap with the city of Ames, Iowa. ARS officials reported that this outcome was more efficient and environmentally friendly than the alternative of building an expensive incinerator.

Alternative Budgetary Structures Have Potential to Help Congress and Agencies Recognize the Costs and Returns of Real Property Projects Upfront and Over Time

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.[29] Alternative budgetary structures may be established to change budgetary incentives for agencies and therefore help Congress and agencies make more prudent long-term fiscal decisions. Such alternatives may include changing existing or introducing new account structures to fund real property projects.[30] These alternatives could promote more complete consideration of the full costs of projects and associated returns over time as well as provide agencies with greater flexibility to manage their real property needs. This could be aided by agencies completing comprehensive business case analyses detailing project costs and returns in a process similar to GSA's prospectus process.[31] A business case analysis might include details about how the project aligns with an agency's strategic plan, a needs assessment and gap identification, an alternatives evaluation, a life-cycle cost analysis, a schedule of project milestones and deliverables, and a cost-benefit analysis.[32]

[29] We have previously reported on the federal government's use of the unified budget. Within the unified budget, the federal government treats spending on real property projects like any current operating expense. The unified budget recognizes the federal government's involvement in national economic stability and growth, a responsibility that is uniquely federal and requires the government to focus on total spending in relation to total revenue. Reforms in how the federal government budgets for real property projects should be considered, but any capital budgeting allocation process should be studied within the overall constraints of a fiscal policy based on unified budget principles. See GAO GAO/PAD-83-1 and GAO/T-AIMD-98-99.

[30] National infrastructure banks have been proposed to provide funding for broad infrastructure needs through an independent entity that could provide credit to support qualified infrastructure projects, such as transportation, water, and energy infrastructure primarily owned by state and local governments and the private sector. Because this report focuses on federally-owned real property, we do not address national infrastructure banks.

[31] 40 U.S.C. § 3307.

[32] See GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, GAO/AIMD-99-32 (Washington, D.C.: December 1998) and GAO, *Federal Capital: Three Entities' Implementation of Capital Planning Principles Is Mixed*, GAO-07-274 (Washington, D.C.: February 23, 2007).

Within the **discretionary budget structure**, Congress provides budget authority for programs in annual appropriations acts. On the **mandatory side of the budget**, Congress provides budget authority for programs in laws other than annual appropriations acts.

Source: GAO-05-734SP

We explored options for changes within the current discretionary budget structure and options on the mandatory side of the budget by reviewing our past reports and discussing possible options with federal budget specialists and industry experts. We make no recommendations with respect to adopting these options. However, understanding the tradeoffs associated with different aspects of alternative budgetary structures can provide decision makers with more information and support decisions about funding federal real property projects.

Budgeting and Capital Planning Principles Offer a Framework for Considering Alternative Budgetary Structures

To assist congressional and agency-level decision makers in considering alternative budgetary structures, we identified two key budgeting and capital planning principles. An alternative budgetary structure should do two things: promote transparency and fiscal control with regard to the funding of federal real property projects; and provide agencies the flexibility to facilitate the acquisition, repair and alteration, and disposal of federal real property in support of federal missions.

The two principles are each further supported by elements that may help frame the consideration of alternative budgetary structures. As decision makers consider these budgetary structures, they must balance tradeoffs between the two principles to understand whether the options would allow for full upfront cost recognition, establish accountability mechanisms to track cost recovery and return on investment, and provide timely funding to promote an appropriately sized federal real property inventory. The principles may interact and conflict with each other and each alternative budgetary structure has benefits and challenges. Moreover, the weight that different decision makers might place on the principles will vary, depending on the desired level of involvement. Table 2 provides an overview of the principles.

Table 2: Principles for Considering Changes to the Current Budgetary Structure

Principle	Elements	Why this is important
Promote transparency and fiscal control with regard to the funding of federal real property projects	Allow for recognizing full costs when "useful assets"[a] are acquired and the associated returns for the real property project	Understanding whether costs and benefits are recognized upfront would allow Congress and agencies to compare the costs and benefits of proposed projects, would result in the recognition of actual costs to taxpayers, and would inform the level of oversight required by Congress.
	Establish accountability mechanisms to track the realization of estimated returns (e.g., cost savings and cost avoidance)	Understanding whether anticipated returns (e.g., cost savings and cost avoidance) would be realized would allow policymakers and agencies to have some assurance of cost recovery and return on investment.
Provide flexibility to facilitate the acquisition, repair/alteration, and disposal of federal real property in support of federal missions	Provide timely resources to support mission needs	Understanding whether the alternative budgetary structure would facilitate funding for real property projects in a timely manner may enable agencies to better plan and manage project funding and avoid certain costly project delays.
	Promote appropriate size of federal real property inventory, including collaborating when possible	Understanding whether the alternative budgetary structure would enable agencies to work collaboratively to co-locate and consolidate space would inform assessment of how agencies can more efficiently use space and facilitate funding for such purposes as well as facilitate opportunities to partner with other stakeholders.

Source: GAO, the President's Commission on Budget Concepts, and OMB guidance on budgeting and capital planning.

[a] A useful asset is an economically and programmatically separate segment of procuring an asset or whole asset. The total asset procurement may include one or more useful assets. *Preparation, Submission, and Execution of the Budget,* app. J OMB Circular No. A-11 (2013).

Discretionary Budget Authority Options Could Provide a Straightforward Means of Dedicating Funding to Real Property Projects

Changes to the current discretionary structure for funding federal real property projects may provide a relatively straightforward means of dedicating funding to federal real property while creating room for additional agency flexibility. However, tradeoffs are inherent in budgeting and these changes may affect spending for other discretionary programs competing for mission critical resources.

Modify the FBF: The FBF is a discretionary fund that receives revenue through rental payments from agencies that lease buildings that GSA manages. GSA's authority to access these funds is determined through the annual appropriations process. As previously described, resources deposited into the FBF have exceeded the amount that Congress has appropriated to GSA in recent years, resulting in a $4.7 billion difference between the full balance of the FBF and amounts made available for spending in fiscal year 2013. Congress provides authority to GSA to incur obligations and make expenditures from the FBF in five categories of activities, such as repairing and altering GSA-managed buildings and constructing new buildings. However, GSA officials said that because available funds must first be used to pay costs associated with other authorized activities, such as leasing privately owned space, operations and maintenance of GSA-managed buildings, and debt incurred from building acquisitions and lease purchase arrangements, repairs and alterations and new construction are the most affected. For example, GSA's obligational authority for repairs and alterations projects decreased from $855 million in 2005 to $280 million in 2012.[33] As a result, customer agencies are being charged for services that the GSA may be limited in its ability to provide in a timely manner. To meet agencies' real property needs, the FBF could be modified in the following ways:

- **Make the full balance of the FBF available:** Congress could make the full balance of the FBF available to GSA. GSA would then have resources to provide the full array of services for which it charges agencies, including repairs and alterations. In 2011, we reported that GSA's overall obligational authority has trended downward in recent years, resulting in GSA reducing spending on repairs and alternations and new construction. GSA officials and OMB staff noted that such repairs have the potential to be more expensive if delayed.[34] Making the full balance of the FBF available to GSA would increase funding for GSA to complete projects for agencies, but it would mean less congressional fiscal control and less funding for other mission critical needs. OMB staff noted that with access to all of its receipts, the FBF would be able to meet necessary recapitalization needs, such as major repairs and alterations.

- **Adjust the FBF pricing structure to exclude certain major renovations:** To ensure that the GSA charges cover all services provided under agreements with tenant agencies, GSA could choose to exclude certain major renovations from agreed upon services.[35] GSA could then reduce rents to cover only operations and ongoing maintenance costs of federally-owned buildings. Appropriations decisions to fund capital repairs with rent savings would be made by

[33] Obligational authority includes adjustments due to reprogramming and rescissions.

[34] See GAO, *Federal Buildings Fund: Improved Transparency and Long-Term Plan Needed to Clarify Capital Funding Priorities*, GAO-12-646 (Washington, D.C.: July 12, 2012).

[35] As previously described, repairs, alterations and new construction are the most affected by GSA's lack of access to the full balance of the FBF.

the agencies' appropriations subcommittees. In effect, this would shift the locus of decision making from GSA's appropriations subcommittee to the appropriations subcommittees of affected agencies. With the change in pricing structure, agencies would have the ability to decide whether to complete funded repairs and alterations in house or use contractors or shared service providers. However, because this option addresses GSA-managed buildings, there may not be an incentive for agencies to carry out this devolution of responsibility amid other priorities and it may be difficult for multi-agency tenant buildings to obtain funding for necessary renovations from their respective appropriations subcommittees. Nevertheless, an agency that uses a GSA-managed building as its headquarters, such as Interior, which has been unable to complete renovations through GSA, would gain some flexibility in completing repairs and alterations by requesting funding directly from its subcommittee. GSA officials noted that separating capital investment funding decisions from operations and maintenance funding decisions could make it difficult to manage the portfolio of government-owned and -leased assets in a strategic manner. They and OMB staff agreed that, without the shared funding aspect of the FBF, it was unlikely that agencies would have sufficient funds available to complete repairs and alterations, even if they were able to maintain the same level of appropriations.

- **Delay recognition of receipts until projects are ready for funding:** To better match FBF receipts with expenses, the recording of receipts from agencies could be held in a temporary account until transferred to the FBF, temporarily recorded as a mandatory receipt until transferred to the FBF as a discretionary offsetting collection. The receipts would be recorded in the FBF account when funds are appropriated for each "useful asset" of a project. Receipts from agencies to the FBF would then be recorded as discretionary offsets in the fiscal year in which they are appropriated to GSA.

Carve out spending from the discretionary allocations: One approach to further invest in federal real property projects and meet governmentwide priorities could be to allocate resources at the full appropriations committee level, outside the competing priorities of the appropriations subcommittees. The appropriations subcommittees have jurisdiction over different agencies and are responsible for appropriating resources among their relevant agencies. Congress could agree to carve out of the full appropriations committee's 302(a) allocation—the level of spending that the full appropriations committee is authorized to distribute—the amount for federal real property, effectively decreasing the cap for the subcommittees' 302(b) allocations—the level of spending that the subcommittees are authorized to distribute to their respective agencies.[36] This would free up funds for acquiring, disposing of, or repairing and altering space and provide a guaranteed funding level to real property; it would also protect it from competition with other programs that are more focused on spending for consumption activities. In the past, Congress has similarly chosen to allocate resources at the full committee level for certain programs. For example, in 1999 there were five discretionary categories with a separate spending limit "carved out"—violent crime reduction, defense, non-defense, highway, and mass transit.[37] As a result of these carve outs, total spending determinations were made at the full committee level rather than at the subcommittee level.[38]

Carving out of the full committee's allocation spending for federal real property would also "crowd out" spending for all other discretionary programs that might represent a higher priority for the nation. For example, we have previously reported that if a guaranteed minimum funding level for a certain program is carved out of the full committee allocation, and total spending is not increased commensurately, then the remaining activities must compete for the reduced amount that is left.[39] Alternatively, the total cap for the subcommittees' allocation could be increased to dedicate funding to real property projects. The adjustment of the cap could be triggered by the approval of project proposals accompanied by business case analyses.

[36] Section 302(a) of the Congressional Budget and Impoundment Control Act of 1974 stipulates that an allocation is the distribution of spending authority and outlays to relevant committees, based on levels contained in budget resolutions. This is known as the full committee's allocation. Section 302(b) stipulates that an allocation is the distribution of spending and outlay authorities to relevant subcommittees based on the levels contained in a budget resolution. This is known as the subcommittee allocation. Pub. L. No. 93-344, 88 Stat.297 (July 12, 1974).

[37] See GAO, *Budget Issues: Cap Structure and Guaranteed Funding*, GAO/T-AIMD-99-210 (Washington, D.C.: July 21, 1999).

[38] In the past, these spending limits served as a cap, not a floor; thus less than the capped amount could be appropriated, but any unused portion could not be reallocated to other areas of the budget.

[39] See GAO/T-AIMD-99-210.

Related Questions on the Implementation of Discretionary Options:

1. If individual agencies and their respective appropriators and authorizers are responsible for making decisions regarding real property projects, would they have the real property expertise to initiate, implement, fund, authorize, and oversee real property acquisition, repairs/alteration and disposal?
2. If an appropriations carve out for federal real property is made at the full appropriations committee level:
   - How narrowly would those funds be defined? (Deferred maintenance, costs related to preparing properties for disposal)
   - How would a business case analysis be incorporated into obtaining access to carved-out funds?
   - How would the carve out be divided amongst appropriations subcommittees?
   - Might the creation of a Reserve Fund achieve the same purpose?

Mandatory Budget Authority Options Could Increase Agency Flexibility and Improve Cost-Benefit Recognition But Would Require a Different Means of Assuring Fiscal Control

Mandatory budget authority options, such as creating a revolving fund with borrowing authority (e.g., a capital acquisition fund) or a dedicated fund with permanent, indefinite budget authority, could enable the recognition of costs and returns associated with complex real property projects upfront and over time. However, these options would require establishing new account structures and may present different challenges compared to discretionary budget authority options. Existing account structures, such as the Tennessee Valley Authority fund, may provide some insight for policymakers in considering the structure of the revolving fund with borrowing authority or permanent, indefinite budget authority.

Example of a Revolving Fund with Borrowing Authority

The Tennessee Valley Authority fund is an example of a revolving fund with borrowing authority. The fund was created in the Tennessee Valley Authority Act of 1933. The fund is self-sustaining with revenue earned by supplying electric power to customers in seven states and from exercising its authority to borrow from the public by issuing debt instruments, such as bonds and notes. The fund has a borrowing limit of $30 billion.

Source: GAO analysis of the Tennessee Valley Authority Act of 1933, as amended.

Borrowing authority is authority granted to a federal entity to borrow funds, then obligate against amounts borrowed. Generally, agencies with borrowing authority are expected to repay the borrowing out of future resources.

Permanent, indefinite budget authority refers to budget authority for an unspecified amount made available as the result of previously enacted legislation and is available without further legislative action. Such budget authority can be the result of substantive legislation or appropriation acts.

Source: GAO-05-734SP.

Borrowing authority and permanent, indefinite budget authority could be provided outside of the annual budget and appropriations cycle, allowing for a greater degree of agency flexibility when planning for and carrying out real property projects. Controls on access to funds in both scenarios could be based on comprehensive project proposals with a business case analysis[40] completed by agencies and submitted to the fund manager, OMB and the Congress to ensure their agreement that the project warrants access to this type of funding. This analysis would describe, among other aspects, the nature of the project and potential savings or costs avoided. If the proposal was accepted, funding could be provided for each useful asset. For each useful asset, agencies might provide updated business case analyses, which could include reestimates of both costs and returns.

Mandatory budget authority options may also present opportunities to promote collaboration among agencies with different appropriators and authorizers as well as allow for better alignment of upfront costs with longer-term returns. These options could result in a centralized funding source available to all agencies, which could facilitate consolidation, sharing space, and partnering among agencies for other real property needs. Mandatory options could also be established to receive returns, such as proceeds from disposals, or enforce the recognition of non-monetary returns, such as cost avoidance or cost savings, through revised business case analyses provided by agencies as they complete useful assets of projects. Despite these benefits, mandatory budget authority options could result in a shift of the locus of decision making from appropriators to authorizers, and would create new management and oversight responsibilities for federal entities. In addition, under the pay-as-you-go (PAYGO) budgetary enforcement mechanism, mandatory budget authority options would require costs to be offset by an increase in mandatory receipts or a decrease in mandatory spending for other

[40] Business case analyses might include such things as how the project aligns with the agency's strategic plan, needs assessment and gap identification, alternatives evaluations, life-cycle costs, a schedule of project milestones and deliverables, and cost-benefit analyses. See GAO, *Executive Guide: Leading Practices in Decision-Making*, GAO/AIMD-99-32 (Washington, D.C.: December 1998) and GAO, *Federal Capital: Three Entities' Implementation of Capital Planning Principles Is Mixed*, GAO-07-274 (Washington, D.C.: Feb. 23, 2007).

programs.[41] Nonetheless, these options could result in cost savings and cost avoidance over the long term.

A **capital acquisition fund** (CAF) is a mechanism for financing federal real property projects with the goal of improving decision making by reflecting annual costs in program budgets and helping ameliorate increases in budget authority for projects without forfeiting upfront cost recognition.

Source: GAO-05-249

Create a capital acquisition fund (CAF): Congress could provide budget authority in the form of borrowing authority to a governmentwide capital acquisition fund (CAF) managed by a single agency, such as GSA.

In contrast to a department-level CAF, which we have previously reported on,[42] a centralized governmentwide CAF could provide funding for real property projects for all agencies. The fund could complement the FBF by providing upfront funding for complex, multi-prospectus level projects or projects estimated to exceed a certain total cost threshold while the FBF could be used for relatively straightforward rental and maintenance expenses. The governmentwide CAF could be subject to a borrowing limit and provide upfront funding for the full cost of projects (or useful assets of projects). As depicted in Figure 4, a governmentwide CAF could be established to:

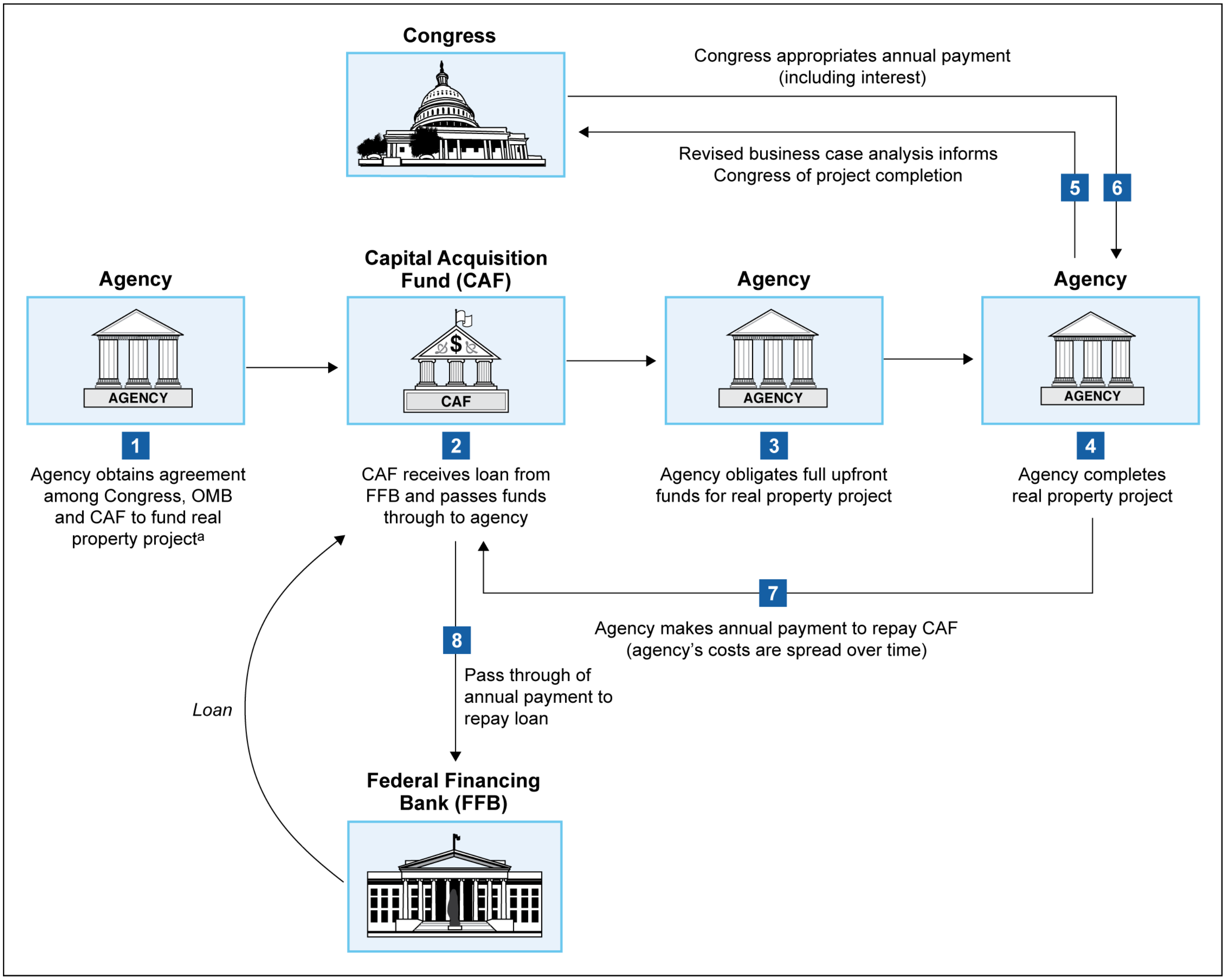
1. Use its authority to borrow from the Federal Financing Bank (FFB) to fund real property projects agreed upon by Congress, OMB and the CAF manager on a project-by-project basis for all agencies.
2. Use annual payments made by agencies to the CAF to repay the loan from the FFB. The annual payments—provided by agencies' subcommittee appropriators—would be principal and interest amortized over the useful life of the asset, allowing the agency to spread the project cost over time.
3. Automatically receive other monetary returns associated with real property projects to be used for future real property projects or deficit

[41] Under PAYGO, proposed changes in, or new permanent, law may not increase the deficit. Budget Enforcement Act of 1990 Pub. L. No. 101-508, 104 Stat. 1388 (Nov. 5, 1990), as amended by Statutory Pay-As-You-Go Act of 2010, Pub. L. No. 111-139, 124 Stat. 8 (Feb. 12, 2010).

[42] We previously reported that establishing a department-level CAF would be a complex process and the benefits of such a structure could be achieved through simpler means. A department-level CAF would use borrowing authority to buy new departmental subunit assets. The subunits would then pay the CAF a mortgage payment, which the CAF would use to pay back the loan from the Treasury. For more information, see GAO, *Capital Financing: Potential Benefits of Capital Acquisition Funds Can Be Achieved through Simpler Means*, GAO-05-249 (Washington, D.C.: April 8, 2005).

reduction. During implementation as well as at completion of projects, agencies would inform the CAF (along with Congress and OMB) about all returns, including nonmonetary returns, such as cost avoidance or cost savings, via revised business case analyses.

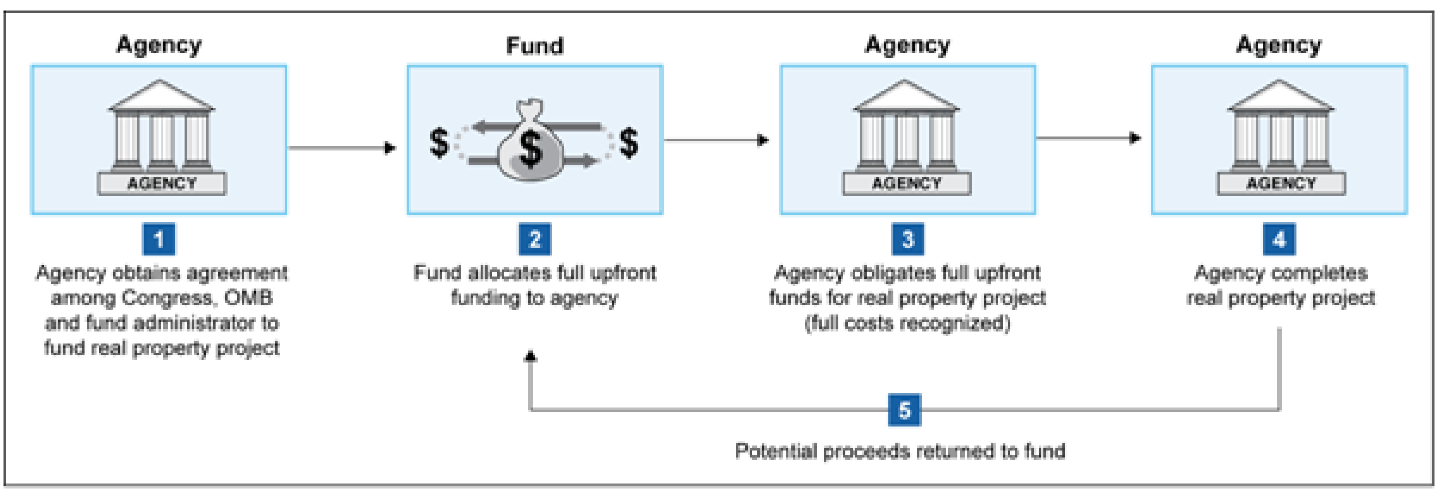
Figure 4: One Model for Obtaining Funding Through a Government-wide Capital Acquisition Fund (CAF)



Source: GAO analysis.

Establish a dedicated fund with permanent, indefinite budget authority: Congress could pass legislation to establish a governmentwide, dedicated fund with permanent, indefinite budget authority instead of borrowing authority. Similar to the CAF, this fund could be managed by a single agency, such as GSA. As depicted in Figure 5, it could automatically receive sums as needed, eliminating the need for annual appropriation to acquire, dispose of, or repair and alter federal real property. The dedicated fund could be at least partially replenished as agencies return net proceeds, such as proceeds from the sale of a building. The fund could complement the FBF by providing upfront funding for complex, multi-prospectus level projects or projects estimated to exceed a certain total cost threshold while the FBF could be used for relatively straightforward rental and maintenance expenses. One concern with providing permanent, indefinite budget authority is that it could reduce agency incentives to provide credible cost estimates in their business case analyses; initial estimates might be artificially low if agencies are held harmless for additional costs that result from price changes.

Figure 5: One Model for Obtaining Funding Through a Dedicated Fund



Source: GAO analysis.

Related Questions on the Implementation of Mandatory Options:

1. What would be the budget enforcement implications for providing permanent, indefinite budget authority and borrowing authority in the mandatory options? Given that federal budgeting rules require that increases in mandatory spending be offset by decreases in other mandatory spending (or an increase in mandatory receipts),[43] where would the offset come from to meet this condition?
2. How narrowly would the use of the mandatory options be defined? For example, would it be meant only for civilian federal real property needs?
3. Would the congressional locus of decision making regarding proposed projects reside with appropriators or authorizers?
4. How would the business case analysis process work? What criteria would be used to consider proposed projects for approval?
5. How would appropriators be involved in the business case analysis process?
6. What mechanisms could be used to ensure that returns are realized in future years?
7. What budget process changes would be needed to ensure that subcommittee appropriators would provide funding to agencies to make annual payments to the CAF to repay the FFB in future years?

Concluding Observations

A central goal of the budget process is to assist the Congress in allocating governmentwide resources efficiently. In the context of federal real property, recognizing costs up front when resource allocation decisions are made is one way to achieve this goal. Given that full upfront funding is an effective way to ensure recognition of commitments embodied in budgeting decisions, an examination of budgetary changes that could improve cost-benefit recognition provides an opportunity to help Congress achieve this goal. Our selected agencies have experienced challenges receiving full upfront funding for federal real property projects through the annual appropriations process and instead have used alternative funding mechanisms, such as public-private partnerships and operating leases to meet long-term needs.

[43] 2 U.S.C. §§ 931-939.

In times of fiscal pressure, employing alternative funding mechanisms to carry out real property projects can appear attractive to agencies because it does not first require obtaining full upfront funding. However, there are inherent risks in using an alternative funding mechanism and many factors affect the outcome. For example, employing alternative funding mechanisms may result in funding federal real property investments without recognizing their true, full costs. This could mean that assets financed through alternative mechanisms may be selected over other equally worthy projects that are competing for full upfront funding. Moreover, with the administration's emphasis on "freezing the footprint," investment decisions that do not recognize costs upfront and returns over time may not result in an appropriate assessment of the size and cost of the federal real property inventory.

We have presented options for alternative budgetary structures that congressional decision makers may wish to consider. Alternative budgetary structures, such as modifying the Federal Buildings Fund (FBF) or establishing a mandatory dedicated fund, could help them recognize a project's full upfront costs and returns over time. While these options could increase flexibility for agencies in addressing their real property needs, they could also result in less fiscal control for Congress. However, if accompanied by appropriate congressional oversight and rigorous financial management, these options may be useful in facilitating prudent real property investment within the current unified budget structure.

There is no single best option, and all options we explored would have considerable challenges that would need to be weighed against potential benefits. In addition, there are broader considerations associated with funding real property projects beyond the scope of this report. Both Congress and agencies have a role in effectively managing real property projects. The authorization or use of an alternative funding mechanism or an alternative budgetary structure requires consideration of tradeoffs to arrive at a deliberate choice that neither creates disincentives for agencies to seek upfront funding nor minimizes fiscal control required by Congress.

We provided a draft of this report for review and comment to the Secretaries of the Departments of Agriculture (USDA), Interior, and Veterans Affairs (VA), and to the Administrator of the General Services Administration (GSA). All agencies generally concurred with our findings. In his written response, the VA Chief of Staff discussed challenges with several of the potential alternative budgetary structures outlined in the report. As we say in our report, while we explored alternative budgetary structure options, each option has both benefits and challenges and we make no recommendations with respect to adopting any of these options. Further, our report states that any potential mandatory alternative budgetary structure to fund large projects would be used by agencies voluntarily, complementing upfront funding through the appropriations process and the Federal Buildings Fund. We further clarified this point in our report. In his written statement, GSA's Administrator expanded upon the challenges that we report agencies experience in funding upfront costs that could lead to long-term savings. He also stated that some of the described alternative budgetary structures would be more effective than others. USDA, Interior, and VA provided technical comments, which we incorporated as appropriate. We also provided a copy of the report to the Office of Management and Budget, which provided technical comments that we incorporated as appropriate.

We are sending copies of this report to the Secretaries of Agriculture, Interior, and Veterans Affairs and to the Administrator of the General Services Administration. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report please contact me at (202) 512-6806 or irvings@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Sincerely yours,

Susan J. Irving
Director for Federal Budget Analysis
Strategic Issues

Appendix I: Comments from the General Services Administration

GSA

The Administrator

February 21, 2014

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Dodaro:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO) Draft Report 14-239,"Capital Financing: Alternative Approaches to Budgeting for Federal Real Property." The U.S. General Services Administration (GSA) agrees that the current requirement for upfront funding of Federal real property projects creates a challenge for agencies because of the competition for scarce Federal dollars. We also agree that alternative budgetary structures, including many of the ones you propose, could improve the Government's ability to meet its real property needs.

GSA's Public Buildings Service (PBS) is set up to operate much like a private sector real estate firm. By law, GSA is required to charge Federal agencies market-level rents in exchange for our provision of market-level services. The rent revenue, which is collected into the Federal Buildings Fund (FBF), is used to pay lease obligations to commercial lessors; to operate, maintain, and invest in our federally owned buildings; and to fund the acquisition of new assets. Although the FBF represents a smart, business-like way to manage Federal real estate, its promise is stifled in several ways.

First, FBF receipts can be diverted because the FBF is subject to annual appropriations. Although GSA received higher funding levels in Fiscal Year (FY) 2014, more than $4 billion in revenue in the fund was diverted away from GSA during FYs 2011 to 2013 — an amount that represented more than a third of the funds collected from federally owned buildings (the FBF payment to commercial lessors is essentially a pass-through). As a result, GSA was forced repeatedly to defer critical maintenance of our existing buildings and has undertaken virtually no new construction.

U.S. General Services Administration
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Second, even if there were no diversion of FBF receipts, GSA would not have upfront capital to make all of the investments that could save the Government money in the long run. GAO itself has noted that ownership, in nearly every instance, is less expensive than leasing. The opportunity to reduce operating costs and rent by consolidating workspace is large, but taking advantage of this opportunity requires significant initial spending on building space and moving people. This hurdle is reinforced by current budget scorekeeping rules that limit the ability of the Federal Government to enter into certain types of public-private partnerships to fund investments in federally owned buildings or allow for equity interests in those that we lease.

Third, the Federal Government's annual budget process creates funding uncertainty for large construction projects, thereby adding uncertainty and risk and often increasing overall project costs and burdening the customer agency. To illustrate, if GSA could contract all at once for the current eight-phase renovation project of the U.S. Department of Commerce headquarters, the Federal Government could save $94 million in estimated construction costs alone. Additional savings in rent avoidance, energy efficiency, improved productivity, and reduced support service costs are hard to quantify, but could equal or exceed the cost of construction. The current system for project budgeting impedes the ability of GSA and its partner agencies to realize these savings in the near term.

The net effect of these limitations is that the FBF is prevented from making certain smart financial decisions. As GAO and the Congressional Budget Office have found, the Government relies too often on costly short-term leases rather than ownership. As a result, we appreciate GAO's thorough review of the many discretionary and mandatory budget ideas to help resolve this issue and believe they are worthy of consideration, particularly those that would provide automatic access to all rents collected. However, some options may be more effective than others. For instance, the option of allowing tenant agencies to fund their own capital projects may not be desirable. Agencies that do not have real estate as their core mission are likely to neither have the expertise nor the incentive to use scarce dollars for needed repairs. Moreover, spending on building operations and capital investment are inextricably linked; failure to make needed capital repairs inevitably drives up the cost to operate a building.

We look forward to continuing to discuss these options further with you and GSA's congressional oversight committees to help ensure that the Government has the capital and the flexibility to make cost-effective real estate decisions.

3

If you have any questions or concerns, please do not hesitate to contact me at (202) 501-0800, or Ms. Lisa Austin, Associate Administrator, Office of Congressional and Intergovernmental Affairs, at (202) 501-0563.

Sincerely,

Dan Tangherlini
Administrator

Cc: Dr. Susan Irving, GAO, Director for Federal Budget Analysis—Strategic Issues

Appendix II: Comments from the Department of Veterans Affairs

DEPARTMENT OF VETERANS AFFAIRS
Washington DC 20420

FEB 21 2014

Ms. Susan J. Irving
Director, Federal Budget
Analysis
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Irving:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, ***"CAPITAL FINANCING: Alternative Approaches to Budgeting for Federal Real Property"*** (GAO-14-239). VA generally agrees with GAO's findings.

The enclosure contains general comments and technical comments related to the draft report. VA appreciates the opportunity to comment on your draft report.

Sincerely,

Jose D. Riojas
Chief of Staff

Enclosure

Enclosure

Department of Veterans Affairs (VA) Response to
Government Accountability Office (GAO) Draft Report
"CAPITAL FINANCING: Alternative Approaches to Budgeting for Federal Real Property"
(GAO-14-239)

General Comments:

1. The following initiatives suggested by GAO could significantly impact VA's management of its capital asset program.

a. This draft report suggests that a prospectus should be generated for all real estate projects. While Veterans Health Administration major projects require a prospectus with a business case, National Cemetery Administration major and minor real estate projects do not.

b. GAO suggests the option to remove the appropriations for real property projects from the Committee on Veterans' Affairs to the overall Appropriations Committee. Although dedicated funds may seem initially attractive, specifically defined categories (i.e., acquisition, design, construction) may result in untimely appropriations, failing to meet VA's evolving needs or causing needless delays (see Page 27).

c. On Page 31, the proposed Capital Asset Fund (CAF) operation that would include all monetary returns going directly to that account discourages agencies from acquiring and disposing of property given their inability to retain the proceeds. VA has limited authorities that allow it to retain some proceeds. Where such proceeds assist with funding operations for the subject properties, this proposed CAF operation would remove that discretion from the agency and place it with CAF operators who, depending on the submission and review timeframes for CAF project approvals, could significantly delay the delivery of services or fulfillment of the respective missions.

d. Theoretically, a CAF is a helpful concept for VA because it may no longer need annual budget authorization from Congress for land or construction projects. However, the administration of the CAF could result in increased, protracted oversight of VA's internal allocation of funds across projects, i.e., a CAF Fund Manager from the General Services, Office of Management and Budget, or Congress would need to approve a comprehensive project proposal and prospectus (see Page 33 and beyond).

e. Mandatory budget authority options proposed on Page 34 could require VA to directly compete with other agencies for space and require more cross-agency partnering. While this is conceptually possible, the reality (depending on the details of the program), could cause significant project delay and diminish VA's ability to satisfy its space needs.

Appendix III: Selected Related GAO Work

Alternative Funding Mechanisms

Background

- GAO, *Capital Financing: Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns*, GAO-05-55 (Washington, D.C.: Dec. 16, 2004).
- GAO, *Budget Issues: Alternative Approaches to Finance Federal Capital*, GAO-03-1011 (Washington, D.C.: Aug. 21, 2003).
- GAO, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed*, GAO-01-452 (Washington, D.C.: Apr. 12, 2001).

Leases

- GAO, *Federal Real Property: GSA Should Clarify Savings Goals for the National Broker Program*, GAO-14-14 (Washington, D.C.: Oct. 31, 2013).
- GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases*, GAO-13-744 (Washington, D.C.: Sept. 19, 2013).
- GAO, *Federal Real Property: Overreliance on Leasing Contributed to High-Risk Designation*, GAO-11-879T (Washington, D.C.: Aug. 4, 2011).

Enhanced Use Leases

- GAO, *Department of Energy: Status of Loan Programs,* GAO-13-331R (Washington, D.C.: Mar. 15, 2013).
- GAO, *Military Bases: Opportunities Exist to Improve Future Base Realignment and Closure Rounds,* GAO-13-149 (Washington, D.C.: Mar. 7, 2013).
- 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).
- GAO, *Renewable Energy Project Financing: Improved Guidance and Information Sharing Needed for DOD Project-Level Officials*, GAO-12-401 (Washington, D.C.: Apr. 4, 2012).
- GAO, *Excess Facilities: DOD Needs More Complete Information and a Strategy to Guide Its Future Disposal Efforts,* GAO-11-814 (Washington, D.C.: Sept. 19, 2011).
- GAO, *Defense Infrastructure: The Enhanced Use Lease Program Requires Management Attention*, GAO-11-574 (Washington, D.C.: June 30, 2011).
- GAO, *Military Housing: Installations Need to Share Information on Their Section 801 On-Base Housing Contracts*, GAO-11-60 (Washington, D.C.: Oct. 28, 2010).

- GAO, *Defense Infrastructure: Army's Privatized Lodging Program Could Benefit from More Effective Planning*, GAO-10-771 (Washington, D.C.: July 30, 2010).
- GAO, *Military Housing Privatization: DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets*, GAO-09-352 (Washington, D.C.: May 15, 2009).
- GAO, *Federal Real Property: Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions*, GAO-08-939 (Washington, D.C.: Sep. 10, 2008).

Partnering

- GAO, *Congressionally Chartered Organizations: Key Principles for Leveraging Nonfederal Resources*, GAO-13-549 (Washington, D.C.: June 7, 2013).
- GAO, *Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Better Utilize Space*, GAO-12-779 (Washington, D.C.: July 25, 2012).

Federal Real Property Reports

- GAO, *Federal Real Property: Improved Standards Needed to Ensure That Agencies' Reported Cost Savings Are Reliable and Transparent*, GAO-14-12 (Washington, D.C.: Oct. 29, 2013).
- GAO, *Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property*, GAO-12-645 (Washington, D.C.: June 20, 2012).
- GAO, *Streamlining Government: Questions to Consider When Evaluating Proposals to Consolidate Physical Infrastructure and Management Functions*, GAO-12-542 (Washington, D.C.: May 23, 2012).
- GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform,* GAO-07-349 (Washington, D.C.: Apr. 13, 2007).
- GAO, *Federal Real Property: Actions Needed to Address Long-standing and Complex Problems,* GAO-04-119T (Washington, D.C.: Oct. 1, 2003).

Appendix IV: GAO Contacts and Staff Acknowledgements

GAO Contact

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Staff Acknowledgements

In addition to the contact name above, Carol M. Henn, Assistant Director, Alexandra Edwards, Vida Awumey and Melissa King made major contributions to this report. Also contributing to this report were Virginia Chanley, Deirdre Duffy, Felicia Lopez, and Donna Miller. In addition, the following individuals provided programmatic expertise: Michael Armes, Keith Cunningham, Brian Lepore, David Sausville, and David J. Wise.

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