

**Testimony of  
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Before the Subcommittee on Federal Financial Management, Government Information,  
and International Security  
Committee on Homeland Security and Governmental Affairs,  
United States Senate  
February 6, 2006**

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Mr. Chairman and Members of the Subcommittee, I am pleased to appear this afternoon to provide you with an overview of the Department of Veterans Affairs' (VA) ongoing efforts and processes to strategically manage underutilized and vacant space within VA's system.

VA is the owner, tenant, and operator of one of the largest healthcare related real estate portfolios in the nation. Its inventory consists of an assortment of land, buildings, and facilities such as hospitals, clinics, and office buildings. Many of these facilities currently are used, managed, and maintained in relation to and for promotion of the respective activities of VA's "Veterans Health Administration" (VHA), "Veterans Benefits Administration" (VBA), and "National Cemetery Administration" (NCA). In total, there currently are approximately 32,527 acres of land and 5,306 buildings on approximately 300 sites.

At the close of FY 2005, VA owned 148,645,698 square feet of space, 4,971,815 square feet of which was underutilized space VA outleased to generate revenue. This represents a 1,035,205 square foot reduction in non-productive, underutilized space from the previous fiscal year. Nationwide, the cost per square foot to operate and maintain VA properties was equivalent to \$4.98 per square foot for a holding cost total of \$758,867,828, based on Federal Real Property Council definitions, in FY 2005.

VA utilizes a capital asset management tool called Enhanced-Use Leasing to better manage underutilized properties. From underutilized assets, revenue is redirected back to the healthcare and capital operations of our medical centers, cemeteries, and benefits offices that serve our nation's veterans every day. Revenue from these projects helps provide additional funding to the medical centers through healthcare and capital costs with enhanced use agreements. In 2005, VA received over \$900,000 in-kind consideration in form of cash and \$28,000,000 in one lump Enhanced-Use Lease payment. VA partners with private or non-profit entities that, in turn, provide, as consideration, low-cost senior housing, co-generation energy facilities, single room occupancy housing (homeless shelters), child care, mental health centers, office buildings, and parking facilities that are not VA programs.

VA does, however, have a significant number of properties in its inventory in locations that do not coincide with where veterans currently live, and in many cases are over 50 or 60 years old. Nationwide, 7,413,625 of the total VA square footage, or 5%, is vacant but scattered throughout the country. As modern trends in healthcare move away from large inpatient units and more toward outpatient care, VA may see large areas of vacant space at one facility, while another facility may have a significant need for additional space.

I now want to discuss with you VA's efforts in managing this complex property portfolio while continuing to increase benefits and enhance services to veterans.

## **CARES**

Former Secretary Anthony Principi formed the Capital Asset Realignment for Enhanced Services (CARES) Commission to conduct a "comprehensive, system-wide approach..., identifying the demand for VA care and projecting into the future the appropriate function, size, and location for VA facilities." The Commission submitted findings and recommendations in February of 2004, and on May 7, 2004, the Secretary released his CARES Decision based on the Commission's findings and recommendations for each CARES site. This Decision became VA's roadmap into the future.

In fact, Veterans Integrated Service Network (VISN) 12, here in Chicago is the first site whereby VA used its Enhanced-Use Leasing authority to implement a CARES realignment decision. Specifically, on January 18, 2005, VA signed a 75-year Enhanced-Use Lease with Northwestern Memorial Hospital (NMH) for two parcels of land totaling 3.8 acres. VA realized \$28 million upon signing the lease. Then, on October 4, 2005, after the Secretary determined that the two parcels were no longer needed by the Department, VA per 38 U.S.C. § 8164 and applicable lease terms, disposed of them to NMH in exchange for an additional \$22 million. This is an example of a very successful leasing and disposal of underutilized VA property. These transactions resulted in a demonstrable improvement of services to eligible veterans by permitting VA to offset the cost of implementing CARES in the City of Chicago and other locations, and avoid future maintenance of aging health care facilities. They also ensured the continuation of quality medical care for Chicago area veterans through VA's use of monetary consideration from the Lakeside Enhanced-Use Lease to fund additional FY 2006 capital improvements.

## **VA's Portfolio Management Approach**

VA utilizes a three-tiered portfolio management approach. This approach is the blueprint for VA portfolio management nationwide. First, VA manages what we have more effectively through Federal Real Property Council (FRPC) performance standards as well as using unique technology-assisted inventory management system. Secondly, VA selects prudent capital investments through appropriated dollars. And lastly, we use an innovative approach to reduce underutilized assets through our Enhanced-Use Lease authority.

### *Approach # 1: More Effective Management of Assets*

VA is committed to four metrics that set the goals for performance. They include the percent of space utilization as compared to overall space (owned and direct leased); the percent condition index (owned buildings); the ratio of non-mission-dependent assets to total assets; and lastly the ratio of operating costs per gross square foot (GSF) adjusting for inflation. These goals are based on the FRPC standards for performance measurement in capital portfolio management.

VA is striving to utilize information technology and established capital asset management principles to improve the management of its capital resources. VA created Capital Asset Management System (CAMS), an integrated, Department-wide system, enabling VA to analyze, monitor, and manage VA's portfolio of capital assets. Data are organized and presented to strategically monitor performance against capital asset goals within and across asset types and VA Administrations (VHA, VBA, and NCA).

*Approach #2: Prudent Investments with Appropriated Dollars*

VA uses appropriated dollars to manage CARES capital investment projects that have proven to be prudent investments. Each project is measured by the President's Management Council and VA performance measures to ensure the best use of our overall portfolio needs. This innovative approach has allowed VA to manage underutilized assets in a more efficient and cost-effective manner.

*Approach #3: Enhanced-Use Leasing Authority*

VA studies its real property holdings through the CARES process to determine mission-critical need. Should a need not exist, VA primarily uses the Enhanced-Use Lease authority to outlease the property to generate non-appropriated revenues, and otherwise considers the use of more traditional conveyance and disposal authorities. Having recognized the need to reduce the number of vacant and underutilized real property assets, over the past 14 years VA has awarded 47 projects through the Enhanced-Use Leasing authority. This legislation provides the Department an asset management authority that allows VA to enter into agreements with public and private entities for the use of VA space and/or land for private development, resulting in some form of consideration back to VA and to veterans. An additional 100 initiatives are being studied, of which 45 projects are currently "active".

VA's Enhanced-Use Lease Authority was initially authorized in 1991 under Title 38 U.S.C. Section 8161 through 8169 and has been modified and reauthorized until 2011. The Enhanced-Use Leasing program provides VA with a proven method of leveraging VA's diverse real estate portfolio and market position. This authority allows for realignment of under-performing property to produce the "highest and best" return to veterans, taxpayers, and the government.

Traditionally, VA land and buildings were acquired and managed by utilizing appropriated funds. The Enhanced-Use Leasing program has brought significant cost savings, substantial private investment, new long-term sources of revenues, as well as jobs or tax revenues for the local, state and federal sectors.

Below are a few additional examples of successful property portfolio management through Enhanced-Used Leasing.

**Minneapolis, Minnesota – Single Room Occupancy (SRO):** On September 1, 2005, the Department awarded an Enhanced-Use Lease of 4.341 acres of land on the VAMC campus to the selected lessee/developer, Hennepin County Housing and Redevelopment Authority (HCHRA) for a SRO facility. HCHRA intends to construct not less than 140 units in 2 existing VA buildings and adequate associated parking, and use existing Building 11 as an administration building. HCHRA would be responsible for the financing, design, construction, renovation, operation, maintenance, and provision of services at the facility. Benefits from the lease include the availability of safe, decent and affordable housing for veterans and others who are in need, storage and office space for VA, as well as significant cost avoidance to VA by reducing reliance on inpatient and domiciliary resources. Such benefits, together with ground rent to VA, will permit more resources to be directed toward direct veteran care.

**Leavenworth, Kansas – Mixed-Use Development:** On August 5, 2005, VA signed an Enhanced-Use Lease with Eisenhower Ridge Association (ERA) to renovate 38 underutilized buildings and to adaptively reuse historic properties located on approximately 50 acres of land. This mixed-use development will provide services and accommodations relating to affordable senior housing, long-term care, transitional veterans housing with supportive services, long-term

veteran housing, and educational and community support facilities. The project will also result in additional land (without historical buildings) to become available to the Leavenworth National Cemetery for additional gravesites for veterans and for a columbarium.

**Chicago (Lakeside), Illinois – Realignment:** As previously indicated, on January 18, 2005, VA signed a 75-year Enhanced-Use Lease with Northwestern Memorial Hospital (NMH) for two parcels of land totaling 3.8 acres. VA realized \$28M in exchange for the lease. Then, on October 4, 2005, after the Secretary determined that the two parcels were no longer needed by the Department, VA per 38 U.S.C. § 8164 and applicable lease terms, disposed of them to NMH in exchange for an additional \$22 million. These two transactions mark the first time that VA has used its Enhanced-Use Leasing authority to implement a CARES realignment decision. The Lakeside lease will result in a demonstrable improvement of services to eligible veterans by permitting VA to offset the cost of implementing CARES in the City of Chicago and other locations, and avoid the future cost of investing VA's limited capital funds in aging health care facilities. The lease also will insure the continuation of quality medical care for Chicago area veterans and enhance the Department's ability to better manage its resources, including the portfolio of Federal real property assets under VA's control. VA used monetary consideration from the Lakeside Enhanced-Use Lease to fund additional FY 2006 capital improvements.

**Tuscaloosa, Alabama – Hospice:** On September 22, 2002, VA leased approximately 3.7 acres on the Tuscaloosa VA Medical Center campus to the Hospice of West Alabama (HOWA) for 75 years to finance, design, develop, construct, operate, and maintain a "hospice facility" with not less than 8 beds available to veterans on a priority basis and then to other residents in need of hospice care. VA and veterans benefit in obtaining access to new safe, decent and affordable inpatient hospice care and services to VA-referred veterans who are in need of hospice care.

**Chicago (Westside) Illinois – Energy:** On August 12, 2002, VA entered into an EU Lease of VA real property to a trust that has secured a developer/operator Energy Systems Group (ESG) to develop and thereafter operate and maintain a state-of-the-art energy center that produces and sells energy to the VAMC with an opportunity to sell energy products to non-VA users. In return, VA receives energy cost savings.

**North Chicago, Illinois – Energy Phase 1:** On May 1, 2002, VA entered into an EU Lease of VA real property to a trust that has secured a developer/operator Energy Systems Group (ESG) to develop and thereafter operate and maintain a state-of-the-art energy center that produces and sells energy to the VAMC with an opportunity to sell energy products to non-VA users. In return, VA receives energy cost savings.

**Chicago (Westside) Illinois – Regional Office Collocation:** On April 22, 2002, VA leased 4 acres of land on the Westside campus for 35 years to a lessee/developer who would finance, develop, construct, and manage a commercial office building. This agreement enabled VA to collocate the Chicago VA Regional Office on the VA medical center campus to improve delivery of benefit and health care services, reduce costs, enhance VA property and improve access for Illinois veterans and their families. In return, VA receives turn-key office space, with no capital cost. The lessee also provides in-kind services and other benefits as long as VA requires office space.

**Chicago (Westside) Illinois – Parking:** On April 22, 2002, VA also leased 4 acres of land on the Westside campus for 35 years to a lessee/developer who would finance, develop, construct, and manage a parking garage complex. In return, VA receives vital additional parking at no

capital cost. The lessee will also provide in-kind services and other benefits as long as VA requires parking.

**Indianapolis, Indiana – Consolidation:** On September 6, 1996, VA leased approximately 22.29 acres of the 30 acre Cold Spring Road Division to the State of Indiana. This transaction allowed VA to close the Cold Springs Road Division and consolidate operations at the West Tenth Street Division of the VA Medical Center at Indianapolis. As part of the State's total rental consideration (\$15.7 million) for the property, \$9.8 million is provided as revenue to support benefits for the veterans of the State of Indiana and to provide other VA benefits as the Secretary deems necessary elsewhere. The remaining \$5.9 million is valued as in-kind consideration which includes property maintenance services to VA.

#### *Land Management Taskforce*

With the lessons we have learned in the CARES process, VA is developing a Land Management Taskforce. It is envisioned that this Taskforce will be focused on a top-down review of *all* underutilized assets and their associated encumbrances. A VA "Site Review Board" will be tasked with steering a full review of all the CARES assets and identifying any and all sites that may have underutilized space. The results of this taskforce will steer the course for future Enhanced-Use Lease transactions that will reduce VA's underutilized and vacant assets and generate revenues to support our mission. This is a unique opportunity to increase the revenue generated from VA's underutilized assets.

#### **Conclusion**

Throughout the process, VA has worked closely with Congress and is committed to keeping members of Congress apprised of VA's efforts to promote efficient business practices in maintaining real property portfolios.

Thank you for your interest in this process, and I appreciate your continued commitment to our nation's veterans. That concludes my statement. I will be glad to respond to any questions that you or Members of the Subcommittee may have.

## APPENDIX

### Awarded EUL Projects

	Location		Project Type	Lease Awarded
1	Washington	DC	Child Development Center	4/20/1993
2	Houston	TX	Collocation	8/23/1993
3	West Palm Beach	FL	Public Safety Center	11/14/1994
4	West Haven*	CT	Child Development Center	12/1/1994
5	Big Spring	TX	Parking	3/8/1996
6	Indianapolis	IN	Consolidation	9/23/1996
7	Bay Pines*	FL	Child Development Center	5/22/1997
8	St. Cloud	MN	Golf Course	7/28/1997
9	Atlanta	GA	Regional Office (RO) Collocation	12/18/1997
10	Portland	OR	Single Room Occupancy (SRO)	7/14/1998
11	North Little Rock	AR	Golf Course	10/1/1998
12	Mt. Home	TN	Medical School	12/17/1998
13	Sioux Falls	SD	Parking	4/1/1999
14	Danville	IL	Senior Housing	4/27/1999
15	Mt. Home	TN	Energy	12/2/1999
16	Indianapolis*	IN	Nursing Home	12/6/1999
17	Dallas	TX	Child Development Center	12/20/1999
18	Roseburg	OR	SRO	8/1/2000
19	Salt Lake City	UT	RO collocation	5/9/2001
20	Durham	NC	Mixed Use / Research	1/3/2002
21	North Chicago	IL	Medical School	4/10/2002
22	Chicago (Westside)	IL	RO Collocation/Parking Structure	4/22/2002
23	North Chicago	IL	Energy Center Phase I	5/21/2002
24	Batavia*	NY	Single Room Occupancy (SRO)	5/24/2002
25	Chicago (Westside)	IL	Energy	8/12/2002
26	Tuscaloosa	AL	Hospice	9/19/2002
27	Barbers Point	HI	Single Room Occupancy	3/17/2003
28	Milwaukee	WI	Regional Office (RO) Collocation	7/17/2003
29	Hines	IL	SRO Phase I (Building 14)	8/22/2003
30	Somerville	NJ	Mixed Use	9/5/2003
31	North Chicago	IL	Energy Center Phase II (Expansion)	10/29/2003
32	Mound City	IL	Interpretive/Visitor Center	11/6/2003
33	Butler	PA	Mental Health Facility	12/18/2003
34	Portland	OR	Crisis Triage Center	2/13/2004
35	Charleston/MUSC	SC	Affiliate Partnering	5/18/2004
36	Hines	IL	SRO Phase II	7/30/2004
37	Minneapolis	MN	Credit Union	8/17/2004
38	Batavia	NY	Assisted Living	8/24/2004
39	Bedford	MA	Single Room Occupancy housing	9/10/2004
40	Hines	IL	Building 14 - Transitional Housing (Amended and Restated)	11/12/2004
41	Hines	IL	Building 53 - Assisted Living (Amended and Restated)	12/27/2004

	Location		Project Type	Lease Awarded
42	Dayton	OH	Child Care Development Center	12/30/04
43	Dayton	OH	Housing Initiative	12/30/2004
44	Chicago (Lakeside)	IL	Realignment	1/18/2005
45	St. Cloud	MN	Homeless Housing	5/24/2005
46	Leavenworth	KS	Residential Health Care	8/5/2005
47	Minneapolis	MN	Single Room Occupancy (SRO)	9/1/2005

\* Terminated projects

### Secretary's Approved Priority Enhanced-Use Lease Projects (July 2005)

Project Site	Project Type	Project Description
Albany, NY	Parking	Lease to not-for-profit corporation for construction and maintenance of a parking structure.
Albuquerque, NM	Assisted Living	Lease for assisted living for spinal cord injury patients.
Battle Creek, MI	Laundry	Lease to reduce laundry costs.
Brevard, FL	Assisted Living	Lease of donated land to establish an assisted living housing complex.
Butler, PA	Homeless Residential Program	Expansion of existing homeless residence to serve veterans.
Butler, PA	Hospital	Demolition of old hospital and support buildings, construction of new hospital, cancer center, and medical office buildings.
Cleveland, OH	Domiciliary	Lease to provide funding for services of 120-bed domiciliary, space for VA program support, and community organizations.
Columbia, SC	Mixed Use/Realignment	Lease for a mixed-use residential development; possible VBA Regional Office relocation to the VAMC campus.
Danville, IL	Student Housing	Lease to reduce Illiana HCS overhead and create 144-bed student housing complex.
Ft. Howard, MD	Mission Realign	Lease for development of a continuum of care retirement community & a replacement CBOC on the vacated VA campus.
Hines, IL	Assisted Living	Create assisted living facility in existing building with non-profit.
Houston, TX	Clinical/Ambulatory Space	Lease to develop clinical and ambulatory space.
Lebanon, PA	Golf Course	Lease to township by providing golf therapy to patients.
Los Angeles, CA	Collocation	VBA will exit leased space to collocate at VHA space.
Marion, IL	Hotel	Lease to increase access to on site hotel for veterans and families.
Marion, IN	Senior Housing	Low income housing for senior and veterans
Milwaukee, WI	Mixed Use	Proposed EU lease for assisted living, retail, and entertainment development.
Montrose, NY	Assisted Living	Reduce maintenance and repair costs to VA while providing funding for community-based clinics and senior and assisted living housing.
Nashville, TN	Research	Lease to Vanderbilt University to provide research facilities to VA.
Newington, CT	Assisted Living	Lease to develop assisted living facility.
Phoenix, AZ	Child Care	Exit high cost leases to obtain on-site offices and childcare

Project Site	Project Type	Project Description
	Development Center	complex for VAMC employees.
Riverside, CA	Transitional Housing	Provide at least 118 beds transitional housing for homeless veterans.
Sacramento, CA	Assisted Living	Lease to provide assisted living facility.
Saint Cloud, MN	Emergency Shelter	Lease to Salvation Army to provide an emergency shelter for veterans.
Saint Louis, MO	Parking	Public/private partnership to build nine-level parking deck. VA patients, visitors, employees get free parking for duration of lease.
San Francisco, CA	Research	Lease to Northern California Institute for Research and Education to develop a new research facility.
Sepulveda, CA	Homeless Veteran Housing	Lease to New Directions, Inc. a non-profit organization, for transitional housing and ancillary services.
Syracuse, NY	Research	Lease to SUNY Upstate Medical University and College of Environmental Science and Forestry for a Biotech Research Center.
White City, OR	Community College	VA/Community college partnership providing training for veterans and VA staff.
Coatesville, PA; Philadelphia, PA; Pittsburgh, PA (Aspinwall & Univ Drive); Wilkes-Barre, PA	Cogeneration, energy savings	Potential for reducing costs and generating revenue via national cogeneration plan.
National VHA	CMOP	Consolidated mail outpatient pharmacy.