Chairman's Statement
"How Does the Federal Government Lease Needed Space?"

October 6, 2005

To cover the Federal government's *current* promised pay-outs, Americans would have to fork over more than 90 percent of their net worth. To pay the current debt of this country would work out to over $350,000 (GAO analysis) for each full-time worker. Political will to tackle the problem won't grow until we come clean with Americans about the scope of the problem. That's what this hearing is about - increasing transparency about our obligations, assets, liabilities, and expenditures.

A few months ago, we held a hearing on the financial mismanagement at the Securities and Exchange Commission (SEC). One of the findings that day was that the SEC is involved in an unnecessarily expensive leasing arrangement to acquire new buildings. Once these buildings are built, the SEC won't even own them. I was surprised to learn that SEC is not the only agency that operates this way.

What's more, last week this subcommittee learned that no one in the Federal government keeps an inventory of what we buy and at what price. Today, we discover that this data vacuum extends to our inventory of real federal property assets. Each year, five and a half billion dollars (GSA) goes to pay rent on Federally-used properties. We're renting space for these facilities, while at the same time, we already have a vast portfolio of facilities that we're trying to get rid of. GAO estimates that more than 30 federal agencies control about $328 billion in real property assets worldwide. Many of these assets and structures are either not needed, not aligned with agencies' missions, or in an alarming state of deterioration—however –no comprehensive number of government-wide real property assets exits. Not only do we not know what we're renting, but we don't know what we own.

The following five examples show that operating leases are almost always more costly than purchase or construction:

- In 1995, GAO reported that GSA had entered into 55 operating leases for long-term needs that were estimated to cost $700 million more than construction.

- In 1999, GAO reported that for nine major operating lease acquisitions GSA had proposed, construction would have been the least-cost option in eight cases and would have saved an estimated $126 million. A lease to purchase option would have saved an estimated $107 million.

- The Patent and Trademark Office (Northern VA) entered into an operating lease that was estimated to be $48 million more than construction and $38 million more than lease-purchase.

- Department of Transportation headquarters reduced the term of a 20 year lease to a 15 year lease so that it could meet the definition of an operating lease. GSA's FY 1999 prospectus for constructing a new facility for this need showed the cost of construction was estimated to be $190 million less than an operating lease.

- SEC used the same approach by reducing the terms of their lease from a 20-year lease to a 14-year lease, in order to fit OMB's criteria for "operating lease."

The Administration has acknowledged a problem, and for that I commend them. OMB has begun to look at some, if not all, of the problems with property asset management. This is a critical first step to managing the government's real property portfolio, but OMB isn't specifically focused on the increasing use of costly leasing arrangements.

And the problem is serious and has long been ignored. GAO has been reporting for ***over six years*** that the government's reliance on costly leasing--instead of ownership—poses liabilities of an unknown proportion on the American government.

GAO reports that agencies change lease terms in order to avoid higher up-front costs. Reliance on these leases creates huge liabilities on the federal government-of an unknown amount. The federal deficit figures do not reflect these liabilities. Budget scorekeeping rules altered in 1990 are mainly to blame because they do not require most leases to be counted against each agency's annual appropriation. This encourages agencies to rent space to meet their needs, because only a portion of cash is needed up front.

Congress is part of the problem. Rather than requiring agencies to plan and budget for their facilities needs, we refuse to let them cut in other areas in order to appropriately invest in construction projects. We encourage the government operate in some alternate universe rather than the way normal American families and businesses operate. When a renter in Oklahoma wants to buy his first home, he and his family scrimp and save until they have enough for a down payment. They understand that owning a house may be more difficult up front, but is much better for their long-term financial health. Congress doesn't let agencies do the same when they need a new building. Congress is so beholden to special interests that we can't allow agencies to set priorities and cut program budgets in order to find money for down payments on new buildings.

And what about when a home-owning family or business is growing and needs more space? They sell their existing facility, and use the profit to invest in the bigger facility. What they ***don't*** do is keep their existing facility in perpetuity, while arranging outrageous terms on a short-term lease for a building they will never own.

You see, when Congress does so-called oversight on agency budgets, those hearings often amount to nothing more than agencies getting spanked for trying to cut spending in certain programs. After the hearing, appropriators just go add that spending right back in. What choice does an agency have but to engage in costly leasing schemes that look - ***on paper*** - like current budgets are unaffected, but which gouge the taxpayer over the long haul?

Today I look forward to hearing about the way the federal government obtains needed space and the reasons agencies have chosen certain options. I am also interested to hear what the long-term implications are for the American taxpayer under current budget scoring rules. We will hear from key players in the leasing process: the U.S. General Accounting Office, the Government Services Administration, and the Department of Veterans Affairs.

I want to thank our witnesses for their time and preparation.