



## Testimony

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# FEDERAL REAL PROPERTY

## Views on Management Reform Proposals

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# Federal Real Property: Views on Management Reform Proposals

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to assist the Subcommittee in its consideration of S. 2805, the Federal Property Asset Management Reform Act of 2000. The purpose of this bill is to amend the Federal Property and Administrative Services Act of 1949 (Property Act), to enhance governmentwide property management and bring the policies and business practices by which federal agencies manage their property assets into the 21st century. You also asked us to review another bill, H.R. 3285, the Federal Asset Management Improvement Act of 1999, which provides for the use of (1) partnerships with the private sector to improve and redevelop federal real estate and (2) performance measures for federal property management.

The U.S. government is one of the world's largest property owners, with a real estate portfolio of over 400,000 defense and civilian buildings and over half a billion acres of land. Most of the government's real property holdings are national parks, forests, other public lands, and military facilities. According to a 1998 National Research Council report, federal facilities alone represented an investment of more than \$300 billion tax dollars.<sup>1</sup> Overall, government-owned real estate is under the custody and control of at least 30 federal organizations, although most is under the jurisdiction of 8 agencies: the Departments of Agriculture, Defense, Energy, the Interior, and Veterans Affairs (VA); the General Services Administration (GSA); the Tennessee Valley Authority; and, the U.S. Postal Service.

As we and others have previously reported, federal asset managers find themselves confronted with numerous challenges in managing this multibillion dollar real estate portfolio, including a large deferred maintenance backlog, obsolete and underutilized properties, rapid advances in technology, and the push for a more integrated work environment.<sup>2</sup> These challenges must be addressed in an environment marked by budgetary constraints and growing demands to improve

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<sup>1</sup> Stewardship of Federal Facilities: A Proactive Strategy for Managing the Nation's Public Assets, National Research Council, 1998.

<sup>2</sup> The integrated workplace is the result of a collaborative, multidisciplinary approach to developing and providing workspace, uniting the organization's strategic real property plan with its strategic business goals. It responds to the people and work practices of each individual and group, and provides them with the physical space and tools needed for their success. See The Integrated Workplace: A Comprehensive Approach to Developing Workspace, Office of Real Property, GSA, (June 1999). See also VA Healthcare: Capital Asset Planning and Budgeting Needs Improvement (GAO/T-HEHS-99-83, Mar. 10, 1999); National Park Service: Efforts to Identify and Manage the Maintenance Backlog (GAO/RCED-98-143, May 14, 1998); and Deferred Maintenance Reporting: Challenges to Implementation (GAO/AIMD-98-42, Jan. 30, 1998).

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service. To meet these challenges, agencies need to provide asset managers with the tools that will help them succeed. While time constraints did not enable us to fully analyze all of the provisions of these two bills, it appears that a number of the provisions in S. 2805 and H.R. 3285 would go a long way toward recognizing real property as a major component in carrying out agencies' missions and improving the federal government's management of its multibillion dollar real property holdings.

Today, Mr. Chairman, I would like to specifically comment on the aspects of these bills that are designed to promote more effective leadership, obtain and maintain reliable information on federal assets, and provide the necessary tools and incentives to make real property management more effective. These are areas where our past work showed that improvements were needed and that best practices of private and public organizations could be used to achieve better results with regard to real property management and oversight. As we have reported, federal agencies can improve their decisionmaking for the acquisition and management of assets by following the best practices of leading government and private sector organizations.<sup>3</sup> I have also included additional background on the use of public-private partnerships by some federal organizations in the attachment to this statement.

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## Property Management Leadership

S. 2805 would require the GSA Administrator to take a leadership role, in collaboration with the heads of federal landholding agencies, to publish, and maintain a current set of real property asset management principles. These principles would be used by agencies as guidance in making decisions about property planning, acquisition, use, maintenance, and disposal. GSA believes that these principles would, among other things, promote more efficient and effective use of federal assets and better communication among the agencies to enhance overall management functions of the federal government. H.R. 3285 would require the GSA Administrator to establish performance measures designed to track executive branch agencies' progress in achieving property management objectives, as well as compare their performance with the private sector. Agencies would monitor their performance against standards set by GSA and report the results to Congress along with the agency's budget submission.

These provisions would emphasize the importance of effectively managing the government's multibillion dollar portfolio of federal real property

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<sup>3</sup> See U.S. Infrastructure: Funding Trends and Opportunities to Improve Investment Decisions (GAO/RCED/AIMD-00-35, Feb., 7, 2000).

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assets, helping facilitate a uniform approach to asset management, and assisting federal managers in monitoring progress and measuring results. They are in line with the principles of the Government Performance and Results Act of 1993 (GPRA), as well as our prior recommendations that GSA focus its facilities management role on government leadership and strategic management.

S. 2805 also would provide for a Senior Real Property Officer to oversee all real property asset management activities relating to agency programs and operations. This provision would establish accountability in federal agencies with real property holdings for the management and oversight of these assets. The Senior Real Property Officer would work together with three other senior agency officials—the Chief Financial Officer (CFO), the Chief Information Officer (CIO), and the head of human resources—to integrate the strategic planning of facilities, financial management, technology, and human capital planning. The Senior Real Property Officer would continuously monitor the management of assets to ensure that they were being used and invested in a way that supported the goals and objectives of the agency’s strategic plan.

Over a decade ago, in our 1989 management review of GSA, we said that placing facilities management closer to the user would improve responsiveness to changes taking place in the workplace, and that as part of this process each agency should designate a senior official who would serve as its focal point for facilities management issues and be responsible for setting agency-level policies and goals.<sup>4</sup> We believe that today’s challenging environment for managing assets poses a need for each land-owning federal agency to have a senior real property manager. At the same time, the establishment of such a senior real property manager position would allow each agency to have a focal point with responsibility for implementing property management consistently with the agency’s strategic plan. Further, the senior real property officers from each agency would be in a position to form a council or other body, similar to the CFO Council, to discuss common issues, such as strategies, best practices, emerging technologies, and workplace needs.

While we support the proposed requirement for agencies to designate a Senior Real Property Officer, we note that the bill does not specify any minimum qualification requirements for these individuals. It would be beneficial if these individuals were qualified through education, training,

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<sup>4</sup> *General Services Administration: Sustained Attention Required to Improve Performance* (GAO/GGD-90-14, Nov. 1989).

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experience, and certification, and were placed at a senior level within the organization. This should enable these individuals to better establish and facilitate appropriate real property asset management policies and practices. These individuals could be required to have a recognized professional designation or certification, such as the Certified Facility Manager or Real Property Administrator designations. Real property management and technology are becoming increasingly complex and the federal portfolio is large and diverse. As such, this would suggest that an experienced and qualified individual would be needed to provide the leadership called for in the bill. Given this, the Subcommittee may want to consider adding qualification requirements to the bill.

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## Relevant Management Information

S. 2805 would require the GSA Administrator to accumulate and maintain a single, comprehensive, worldwide listing of all real property interests under the custody and control of federal agencies. Subject to certain limitations, and as deemed appropriate by the Administrator, portions of this database would be available to interested stakeholders and the public. As you know, GSA currently maintains a worldwide inventory of real property holdings. However, according to GSA's Inspector General, GSA has no assurance that this inventory contains accurate, timely, or complete data and has no leverage or authority over property holding agencies to ensure that the data they voluntarily submit is current, accurate, or complete.<sup>5</sup>

Our prior work has shown that data related to the management and oversight of federal assets are generally problematic. For example, it is difficult to determine how many federal buildings are underutilized or unneeded, or how much money the federal government as a whole spends on the maintenance and repair of federal facilities. Variations exist among agencies with regard to definitions and methodologies for developing budgets and accounting and reporting systems for tracking maintenance and repair expenditures.

In our 1989 review of GSA, we noted that the agency needed to determine what information was needed to effectively oversee governmentwide real property management. We added that we saw major challenges for GSA in improving the availability of relevant information to manage the government's facilities assets and establishing oversight of facilities management functions. Accordingly, we recommended that the GSA Administrator ensure the development of a new facilities management

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<sup>5</sup> See *Review of Real Property Reporting for the Worldwide Inventory* (GSA/OIG: Report Number: A000813/O/W/F00006, Mar. 23, 2000).

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information structure, redefine the relevant management information needed to manage facilities assets strategically, evaluate facilities costs and performance, and oversee delegated functions. In addition, we have often reported our concerns about the reliability of the government's real property inventory. For example, we noted that the government's reporting of its real property inventory was incomplete and unreliable in our 1999 financial report on the government.<sup>6</sup>

We believe that a comprehensive, reliable listing of federal properties, as envisioned by S. 2805, is essential to overseeing and managing the government's large portfolio of federal assets. Lack of good data makes it difficult to select an optimal level of capital spending needed for the acquisition and maintenance of real property. Inadequate data also impede the ability to identify and dispose of real property assets that are no longer needed or cost effective to retain. If the government does not have a good perspective on its property holdings, because of poor data, it may be incurring opportunity costs needlessly, since some of its buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold.<sup>7</sup>

Since GSA and most other federal agencies do not know the market value of their properties, the costs the government incurs when these properties are used inefficiently or uneconomically are not apparent. We would like to point out that while we support the bill's provision related to a worldwide inventory of federal real property holdings, we believe this will be a challenging task for many agencies because our previous work has shown that the government lacks the necessary systems and processes to ensure complete and reliable information on its assets. As a result, agencies have had limited success in making effective use of data they gather for the ongoing management of facilities.

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## **Property Management Flexibility and Incentives**

S. 2805 would also provide managers more flexibility and incentives for better property management. The bill would amend current law so that each agency, in selling its real property, could retain proceeds from such sales and deposit them into agency capital asset accounts for real property needs. Furthermore, each agency would be able to be reimbursed for the costs of property dispositions from the proceeds of the dispositions or from its capital asset accounts. Additionally, S. 2805 provides asset management tools, which in themselves may be incentives for agency

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<sup>6</sup> Financial Audit: 1999 Financial Report of the United States Government (GAO/AIMD-00-131, Mar. 31, 2000).

<sup>7</sup> Federal Real Property: Key Acquisition and Management Obstacles (GAO/T-GGD-93-42, Jul. 27, 1993).

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property managers to better manage federal real estate assets. The bill would provide four new enhanced asset management tools for effective management of federal property—(1) interagency transfers or exchanges, (2) sales to or exchanges with nonfederal sources, (3) subleases, and (4) outleases. These tools would allow each federal agency to negotiate the movement or use of property assets that no longer provide the optimum accommodation for the agency’s activities because of its changing mission requirements, functional obsolescence, or other activities.

GSA believes these provisions will present opportunities for cost avoidance, reduce the number of mission-deficient properties under federal ownership, and improve the quality and productivity of federal facilities. Over the years, we have reported that the government has not made enough funding available to properly maintain public assets. As a result, federal buildings are suffering from years of neglect and are becoming functionally obsolete. Recently, we reported that GSA data indicate that about \$4 billion was needed to satisfy the repair and alteration requirements in the government-owned buildings it manages.<sup>8</sup> In 1991, we reported a similar condition in that buildings were deteriorating and that billions of dollars were needed to bring them up to acceptable quality, health, and safety standards.<sup>9</sup>

We believe that federal asset managers need the proper tools to effectively manage and oversee federal assets. Given this, the tools mentioned above appear to be steps in the right direction for exploring opportunities to better utilize federal assets. However, we believe that the 20-year limitation generally placed on the use of outleases in S. 2805 could significantly reduce the usefulness of this tool for properties that are historically significant or that are located in economically depressed areas, and additionally may discourage private investors. According to private sector developers, the 20-year period may not provide enough time to recoup their investment.

H.R. 3285 also provides a new tool that could be an incentive for federal property managers to better manage federal real estate. It allows GSA to enter into public-private partnerships with nongovernmental entities to lease federal property and to develop, rehabilitate, or renovate facilities on

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<sup>8</sup> See *Federal Buildings: Billions Are Needed for Repairs and Alterations* (GAO/GGD-00-98, Mar. 30, 2000) and *Federal Buildings: Billions Are Needed for Repairs and Alterations* (GAO/T-GGD-00-73, Apr. 11, 2000).

<sup>9</sup> *Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence* (GAO/GGD-91-57, May 13, 1991).



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such leased property for use by executive agencies. The public-private partnerships could be formed with limited liability companies, limited partnerships, corporations, business trusts, or other entities designated by GSA. Congress has already enacted legislation that provides certain agencies with a statutory basis to enter into partnerships and keep the revenue they receive from them. Our work has shown that public-private partnerships have been successfully used by some federal organizations. The attachment to my statement further describes federal agencies' involvement with public-private partnership arrangements.

As we and the National Research Council pointed out in our April 29, 2000, testimonies on asset management, incentives are needed to encourage agencies to better manage their assets. Currently, the law for most federal agencies requires that all proceeds from the sale of federal land and buildings go either to the general treasury or the Land and Water Conservation Fund. This provides agencies with no monetary incentive to identify and dispose of excess federal real property. In our public-private partnership review, we found that a primary reason for an agency to enter into partnerships was the incentive to keep, for its own use, the revenue it would receive from the partnership.

It appears to us that allowing agencies to retain the bulk of the funds they would receive from using the tools set forth in S. 2805 would provide agencies with incentives, although it reduces the Congress' ability to oversee these funds. Permitting individual agencies to retain sales proceeds could raise questions about capital allocations should governmentwide priorities change. Thus, another possible approach would be to designate the proceeds from real property transactions to be placed into an account that would be managed centrally so that decisions on capital investments could be made based on where the need is greatest across government. However, this approach does not directly provide incentives to the agencies themselves.

Both S. 2805 and H.R. 3285 contain provisions that would provide Congress with advance notification of certain transactions as well as information on their asset practices on an annual basis. However, it is not clear to us from the bills whether Congress would receive the specific information it would need to exercise appropriate control and oversight over the funds to be retained and used. Thus, regardless of whether the designated funds are managed centrally or agency by agency, the Subcommittee may want to consider requiring whoever controls the funds to submit a plan to Congress on how the funds are to be used as well as providing a report on how the funds were used. OMB currently requires

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capital asset plans for acquisitions and, in its Capital Programming Guide, encourages agencies to develop plans covering all of their capital assets.

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## Conclusions

In a results-oriented environment in which the federal government operates, much thought must be devoted to a rationale and strategy for facility management, maintenance, and accountability for stewardship that will optimize our limited resources while protecting the value and functionality of the nation's real property. S. 2805 should go a long way toward improving the stewardship of public assets by requiring the appointment of a Senior Real Property Officer for each executive land-holding agency and providing asset managers with better information, greater flexibility, and more tools with which to optimize asset performance.

In addition, we believe that the new tools provided by S. 2805 and H.R. 3285, such as inter-agency transfers and public-private partnerships, and the ability to retain funds from real property transactions should help property managers become better stewards of the nation's assets and thus more effectively sustain the taxpayers' investment. As the Subcommittee deliberates on S. 2805, there are three areas that should be considered. These are (1) the need for qualification requirements for Senior Real Property Officers; (2) the possibility that the 20-year lease term for outleases may limit the usefulness of this tool for properties that are historically significant or that are located in economically depressed areas; and (3) the type of congressional review or oversight that would be appropriate regarding agencies' intended or actual use of funds they retain from real property transactions, along with whether the retained funds should be controlled centrally or agency by agency.

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

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## Contacts And Acknowledgement

For further information contacts regarding this testimony, please contact Bernard L. Ungar, Director, Government Business Operations Issues, on (202) 512-8387. Individuals making key contributions to this testimony included Ronald King, Gary Lawson, and Donald Bumgardner.

# Public-Private Partnerships Have Been Successfully Used by Some Federal Organizations

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To maximize returns on buildings and facilities, federal agencies are increasingly interested in managing them in a more businesslike manner. Partnerships between the federal government and the private sector through contracts or agreements are one of these approaches. These arrangements typically involve a government agency contracting with a private partner to renovate, construct, operate, maintain, and/or manage a facility or system, in part or in whole, that provides a public service. Last year, we reported the findings of our public-private partnerships review and the key elements and related experiences of the six federal partnerships we examined in our report.<sup>1</sup>

The six partnership projects we examined were located in three agencies: the National Park Service (Park Service) within the Department of the Interior, the Department of Veterans Affairs (VA), and the U.S. Postal Service (Postal Service). We selected them based on several factors, including our consultation with building and facility management experts from the public and private sectors. Although each of the six projects tailored its efforts to address its specific needs and environment, we found five common elements that appeared to play a key role in the implementation of the partnerships we reviewed.

First, there was a catalyst for change that led each of the three agencies to form a partnership with the private sector. For example, community pressure and fiscal constraints were the catalyst in the two Park Service projects we reviewed, in which the Park Service entered into public-private partnerships mainly to obtain partners that could finance needed preservation efforts.

Second, for all six projects we reviewed, Congress enacted legislation that provided a statutory basis for the agency to enter into the partnership and keep the revenues it received from that partnership. The legislation was either project-specific, as it was for one of the Park Service projects, or broader in scope, as was the 1991 law that authorized VA to lease its properties and retain the resulting revenues. According to building and facility managers in all of the projects we reviewed, a primary reason for an agency to enter into these partnerships was the ability to keep for its own use the revenue that it would receive from the partnership.

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<sup>1</sup> Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships (GAO/GGD-99-23, Feb. 3, 1999); See also, Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships (GAO/T-GGD-99-81, Apr. 29, 1999); Public Private Partnerships: Terms Related to Building and Facility Partnerships, (GAO/GGD-99-71, Apr., 1999); and Federal Real Property Management: Answers to Hearing Questions, (GAO/GGD-99-130R, Jul. 1, 1999).

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Third, the agencies we reviewed also told us that they established organizational structures and acquired the necessary expertise to interact with private-sector partners to ensure effective partnership implementation. For example, VA established an Office of Asset and Enterprise Development to promote the partnership concept within VA to design and implement public-private partnership projects, and to be a single point of contact with VA's private-sector partners. The office was staffed, VA officials said, with professionals experienced in portfolio management, architecture, civil engineering, and contracting.

Fourth, in all six projects we reviewed, asset management officials used business plans or similar documents to make informed decisions and protect the government's interests. According to Postal Service officials, the development and execution of a business plan, which included information about the division of risks and responsibilities between the Postal Service and its private-sector partner, was critical to its success in implementing its large-scale real estate development projects. For each of the projects we reviewed, business plans were drafted jointly between the public- and private-sector parties to help ensure the close involvement of both parties in the design and implementation of the project.

Finally, support from project stakeholders was an important factor in developing and implementing the public-private partnerships. In all of the projects we reviewed, agencies had the support of the local community and other stakeholders to create the partnership.

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